Thibaut KLEINER
London School of Economics and Political Science
Doctor of Philosophy (Ph.D) degree

Organisational adaptation in an integrating Europe:

The case of French asset management industry, 1984-1999

ABSTRACT

This thesis contributes to institutional theories about European business systems through the analysis of one case study: the French asset management industry in the period 1984-1999. It asks how firms in a given business system adapt to changes in their economic and societal environment. The thesis declines the usual focus on issues of convergence and divergence, and suggests investigating organisational adaptation as a key dynamic process within business systems, and it develops a theoretical framework for this purpose. It presents the French model of asset management in the mid-1980s and contrasts it with the Anglo-Saxon model. It then shows that by 1999 French firms had for the most part adopted the dominant patterns of the Anglo-Saxon model. It then explains that if companies can stimulate the constitution of a new organisational field operating with different rules and institutional arrangements, they can depart from the dominant patterns and behaviours of their national environment. In this process, such institutional agents as regulators, professionals, market leaders and consultants, and such calculation tools as performance measurement, benchmark, rating and invitations to tender play a key part in establishing the new rules. Instead of focusing on convergence or on persisting diversities among national business systems, the thesis suggests further investigating the constitution of trans-national entities.

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CHAPTER I: INTRODUCTION

This thesis contributes to the analysis of a general problem: how European business systems respond to societal change. It follows a literature, which recognises that economic action should be understood as embedded in a societal environment, and that a coherence exists between national institutions and the organisational patterns and behaviours of firms. But given a changing economic and social environment, the research does not follow the usual perspectives that focus either on convergence or on persisting differences between national economies. Instead it concentrates on the analysis of one particular phenomenon: organisational adaptation. In an integrating Europe, how do firms adapt to changes in their surrounding business system? The argument will proceed in four steps.

In the first chapter, we justify this approach and the methodology adopted. The second chapter is devoted to the case study design, French asset management over the period 1984-1999, and to the definition of four theoretical hypotheses or possible scenarios about how French firms would have adapted to changes in their environment, as predicted in the literature. Also, we will develop a theoretical framework, in order to have the necessary theoretical tools to analyse organisational adaptation processes within the business system framework. In a third step, we will categorise the situation in the French asset management industry at two historical moments: 1984, and January 1999, when the Euro was launched. We will note that most firms have departed from the patterns of the French model to embrace those of the Anglo-Saxon model. Finally, we will explain how this rather surprising result was possible and develop a novel understanding of organisational adaptation processes. This will lead us back to the initial research problem, which is the concern of the following pages.

1. The research problem

Our research problem is organisational adaptation in an integrating Europe. We will show that it emerges from a particular approach, economic embeddedness within business systems as it faces societal change. We will then explain why we focus on organisational adaptation and why especially in an integrating Europe.

1.1. The starting point: embeddedness and business systems

The research belongs to a growing stream, which holds that economic action should be analysed with regard to its context. Over the last twenty years, economic sociology and political economy have indeed had an impressive renewal, with more and more scholars revisiting the postulates of economics and trying to offer better accounts of economic phenomena (Nee, 1998; Swedberg, 1997). Here the core concept is 'embeddedness', which was made popular by Granovetter in a much cited article of 1985. But the notion of embeddedness goes back to the writings of Karl Polanyi (1944), who assumed the existence of an institutional frame constituting the context in which economic activities took place (Callon, 1998: 8). Granovetter rejected the two concepts of Homo Sociologicus and Homo Economicus, the latter resting on the hypothesis of a person closed in on himself. As Granovetter noted:

> A fruitful analysis of human action requires us to avoid the atomisation implicit in the theoretical extremes of under- and oversocialized conceptions. Actors do not behave or decide as atoms outside a social context, not do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. (1985: 487)

The starting point of the thesis is the recognition of this embeddedness of economic action, not only in networks, as stated by Granovetter (1985), but also in the cognitive, regulatory and normative institutions that constitute social structure (Giddens, 1984: 31; Scott, 1995: 35).

More precisely, the present research follows a large and growing body of literature that attempts to categorise capitalist economies in terms of their specific institutional arrangements (Albert, 1991; Berger and Dore, 1996; Crouch and Streeck, 1997; Hall and Soskice, 2001; Hollingsworth and Boyer, 1998; Hollingsworth, Schmitter and Streeck, 1994; Lane, 1989; Whitley, 1999). Most of these authors express the view (which is also the initial postulate of this research) that economic behaviour can be understood at the level of a system which gives coherence to the behaviour of individual agents. For instance, Hollingsworth and Boyer define what they call a social system of production, which means "the way that a number of institutions or structures of a country or a region are integrated into a social configuration" (Hollingsworth and Boyer, 1998: 2). These institutions are:

> the industrial relations system, the system of training of workers and managers, the internal structure of corporate firms, the structured relationships among firms, the financial markets of a society, the concepts of fairness and justice held by capital and labour, the structure of the state and its policies and a society's idiosyncratic customs and traditions as well as norms, moral principles, rules, laws and recipes for action.(ibid.)

They claim that these institutions tend to integrate with one another, and that they constitute a relatively stable and coherent social configuration. A similar idea is found in the notion of models of capitalism, which are used to define institutional typologies affecting the functioning and performance of firms (Albert, 1991; Crouch and Streeck, 1997; Rhodes and Van Apeldoorn, 1997; Streeck 1992; Zucker, 1988). Models of capitalism have insisted, in particular, on the different configurations in terms of corporate governance between Anglo-Saxon and Rhenan capitalisms (Albert, 1991), or between shareholder and stakeholder capitalisms (Kelly, Kelly and Gamble, 1997). The thesis will use a third concept, the business system (Whitley, 1991), which seems more appropriate for the study of corporate behaviour in a context of institutional change, and which explicitly relates business organisations to their socio-institutional environment.

Business systems are understood as the sum of the general practices and value orientations which characterise both the internal organisation of business units and their relations with their environment. They are "distinctive patterns of economic organisation that vary in their degree and mode of authoritative co-ordination of economic activities, and in the organisation of, and interconnections between, owners, managers, experts and other employees" (Whitley, 1999: 33). It is important to notice that the concept of business system was elaborated for and has been used for comparative purposes. But it also provides a framework that accounts for internal consistency, as underlined by Whitley:

> While not assuming that national contexts determine all aspects of business systems, nor denying the significance of variations between industries in heterogeneous cultures, the comparative analysis of enterprise structures does claim that dominant social institutions generate distinctive business systems which are relatively similar within national states and strong cultural systems, but vary considerably between them. (1991: 24)

It is of special interest that these theories recognise some conformity between the micro-level of corporate behaviour and a macro-level of analysis. In other words, they offer some concrete understanding of the embeddedness of organisations in defining patterns of behaviours for firms and economic agents, and in relating them to dominant institutions. This is the case in the work of Christel Lane (1992, 1995) on France, Germany and Britain; of Jacqueline O'Reilly (1994) on banking in France and Britain; of Peer Kristensen (1995) on small and medium-sized enterprises in Denmark; and of Whitley (1991, 1999) on Asian and East-European countries, just to mention a few. Such studies should also be related to the Aix school, which produced a number of comparative enquiries (Maurice et al., 1988; Maurice, Sellier and Silvestre, 1986; Maurice, Sorge and Warner, 1980; Sorge and Warner, 1986), and which undoubtedly influenced the business system approach. Taken together, these studies provide a body of literature that categorises national economies by defining the dominant patterns of behaviour of given economic agents, and by relating these to particular sets of institutions. They have developed some frameworks to categorise national economies using particular lists of key characteristics and using tables that combine them with macro-institutional features. This is well illustrated by Whitley (1999), who first identifies eight key characteristics of business systems in three categories (ownership co-ordination, non-ownership co-ordination and employment, and employment relations and work management [34]), then classifies them along six business system ideal-types (42), which are then combined in a matrix with thirteen institutional features (60). These approaches together with those previously quoted therefore provide a framework by which to categorise national economies.

Moreover, the business system approach seeks to recognise and identify some dynamic elements within the functioning of national economies, and it questions the persistence and change of varied forms of economic organisation (Whitley, 1999: 5). Interestingly, one could understand the present varieties of capitalism as different versions of what has been defined as Fordism, each of these versions following national specificities and bargaining traditions (Crouch and Streeck, 1997: 8). Based on the principles of Taylor's scientific management and initiated in the United States in the 1930s, Fordism was a method for the efficient production of a single item through mass production and standardisation, and it gradually gained universal acceptance as the paradigm of efficient production, at least until the early 1970s (Boyer and Durand, 1997: 7). But Fordism was more than a method of production: it encompassed an institutional configuration, a mode of regulation associated with particular employment relations (Boyer and Durand, 1997: 9; Lipietz, 1992: 8). It was implemented at a time when economies were nationally organised and when nation-states acted as watertight containers of the production process (Dicken, 1998: 2). Consequently, Fordism could be successfully diffused internationally, but because it both implied and required a societal compromise and compatible institutions it was integrated into a variety of national practices and traditions. Business systems are therefore regarded as the products of certain historical developments: they receive their distinctive character at a very early stage of the industrialisation process, but develop and adapt over time in response to broader economic and technological challenges, as well as to social and political pressures (Lane, 1992: 64). And the proponents of the business system approach consider that "societies with different institutional arrangements will continue to develop and reproduce varied systems of economic organization with different economic and social capabilities in particular industries and sectors" (Whitley, 1999: 3). However, given the present situation of societal change and its trans-national nature, there arises a problem: why should national business systems remain different? To answer this question we decided to focus on one particular phenomenon: organisational adaptation.

1.2. A context of economic transformation questions the persistence of national distinctiveness

The problem with the institutional analysis of European business systems is that it does not explain how national distinctiveness may be preserved despite present societal changes. While it is hardly disputable that capitalist economies have experienced accelerated transformation over the last twenty years (Dicken, 1998: 3), there is no agreement about the direction they are taking. A short phenomenology of the present changes will illustrate how extensive they are, and this will lead us to recognise conflicting theories about their impact on national economies. Noticing an inescapable dichotomy in the literature, we will explain why a focus on organisational adaptation was adopted in the research.

1.2.1. Current changes in the world economy

Four elements are often mentioned to describe the current changes in the world economy: new technologies, globalisation, new competitive conditions and re-definition of the role of the state.

First of all, technological progress and the digital revolution radically changed the conditions of production and the possibilities of innovation. In what has been described as Flexible Specialisation and Neo-Fordism (Piore and Sabel, 1984), or post-Fordism (Boyer and Durand, 1997; Lipietz, 1992) or lean management (Womack et al., 1990), there is no longer a dissociation between the design and the execution of tasks. Workers participate in a constant upgrading of the production processes; they are expected to suggest improvements, take initiatives and be responsible for their work. Firms can thus achieve both flexibility and high quality. The impact of new technologies and especially the rise of the Internet and other communications devices such as digital television and mobile phones results in boundaries being blurred between industries, and even more between countries. This leads to what some call the "eEconomy" (Andersen Consulting, 1999), where the same companies can operate in publishing, entertainment and retail at the same time, on a global basis and without closing hours. New technologies mark the death of distance (Cairncross, 1997) and the birth of a 24-hour-society (Moore-Ede, 1993).

In fact, and this is the second dimension of the present changes, boundaries seem to be dissolving between countries, so that time and space are contracting in a globalising world.

Globalisation refers both to the compression of the world and to the intensification of interdependency (Giddens, 1990: 21; Robertson, 1992: 8). International trade and cross-border investments are creating economic interdependency. Mass media and telecommunications open the world to individuals who then develop a global awareness (Giddens, 1991: 187). Interdependency and time-space contraction go with the development of trans-national entities. Leslie Sklair, who talks about sociology of the global system, expresses the view that these trans-national corporations produce trans-national practices, which then become the basis of the global system (1991: 6).

The third phenomenon in today's changes is the establishment of new competitive conditions. In the New Competition, not only price but also innovation, fast design, better products, and higher responsiveness to change start to be the decisive criteria (Best, 1990: 254). Competitiveness is no longer the outcome of the firm's own efforts and its ability to rationalise production so as to lower costs. Competitiveness is the outcome of such institutional arrangements as education, research and development capacities, information resources, transport and communication networks, leisure and the quality of life, all of which contribute to the competitiveness of nations (Porter, 1990: 19). Consequently, and this is the last dimension of the phenomenology of the present changes, the role of nation-states is being re-defined.

Governments seem to have lost their supremacy in terms of economic governance. This is the argument of Susan Strange's *The Retreat of The State* (1996), where she writes that:

> The impersonal forces of world markets, integrated over the post-war period more by private enterprise in finance, industry and trade than by the co-operative decision of governments, are now more powerful than the states. (4)

Everywhere, privatisation and deregulation are on the agenda. In the period 1990 to 1996 alone, more than thirty countries abandoned central planning as the main mode of allocating scarce resources, while over eighty countries liberalised their inward foreign direct investment (FDI) policies (Dunning, 1997a: 35). The difficulties experienced by states in coping with the changing conditions of competition and economic order have led to a retreat by government from direct economic involvement. They have given back to markets a leading role in the managing of the economy. In what is called Alliance Capitalism (Dunning, 1997b), states tend to build a partnership with business and society in order to compete internationally and to attract FDI. To do so, they behave:

> as strategic organisers and institution-builders, as ensurers of the availability of high-quality locationally bound inputs, as smoothers of the course of economic change and as creators of the right ethos for entrepreneurship innovation, learning and high-quality standards. (Dunning, 1997b: 23)

All these changes, however, severely question the previous framework positing that economic action can be described using national business system types. Why should differences persist when there are no more boundaries to the global influence of change? Given new technologies and international interdependency, how do we understand the transformation occurring inside business systems?

Rather [illegible]

1.2.2. Convergence vs. Divergence

Although a major qualitative change is widely acknowledged amongst scholars, there is as yet no agreement on the extent and precise nature of that change (Lane, 1995: 1). One dispute is between the hypothesis of general convergence towards a single model, and that of persisting national differences that will either remain unchanged or even be reinforced by the general trends of economic transformation.

The first thesis, sustained by Marxists, by functionalist social science, and by the management literature in general, is that in a modernising and globalising world, each national economy is likely to converge on a single set of axial principles for its economic and social organisation. For Marx and Lenin and their followers, the world is becoming unified because of the domination of a single way of producing commodities: capitalists will use their power to impose their system on regions not previously within their orbit (Waters, 1995: 12). For functionalists, there is an evolutionary path, with corresponding stages that any society will follow to reach the same eventual configuration. For instance, Bell (1976) argues that emerging intellectual technologies for the production of services create convergence towards a post-industrial future, while scholars interested in macro-social convergence insist on the capacity of specific agents to develop a unified global system (Robertson, 1992; Sklair, 1991). Most business and management scholars also predict a gradual convergence of national economic systems in a borderless and global world. Since the existence of a "best way" for business organisation is recognised, global best practices and dominant market structures gradually overtake the entire world. For instance, the multi-divisionary organisation (Chandler, 1962; Williamson, 1975), the trans-national organisation (Barlett and Ghoshal, 1982, 1989; Ohmae, 1990; Reich, 1991) or lean management (Edquist and Jacobson, 1988; Womack et al., 1990) become generalised because of their inherently superior efficiency. In general, the convergence thesis therefore goes with evolutionary and rational choice perspectives, and with the idea that each individual country will adopt the same patterns of economic behaviour, which are judged superior either because of their efficiency or because of the power of their advocates.

However, many other authors have supported the thesis of persisting differences and even divergence. A common view, advanced by comparative political economists, is that convergence is over-stated and that closer examination shows that differences still persist and are likely to remain (Krugman, 1996). Some scholars insist that convergence to a single most effective type of market economy is no more likely in the twenty-first century than it was in the highly internationalised economy of the nineteenth century (Hirst and Thompson, 1996). Some others focus on persisting differences between national configurations (Boyer, 1996; Florida and Kenney, 1993; Hollingsworth and Boyer, 1998; Kristensen and Whitley, 1995, 1997; Lane, 1992; Maurice et al., 1986). In their view, the interdependency between national institutions will continue to develop and to reproduce varied systems of economic organisation that are equally viable. For that reason, the same global processes would still lead to different versions and different production systems. Finally, some authors have suggested the development of further divergence, based on the principle of international specialisation. Such authors as Dicken (1998), Dunning (1997a), Porter (1990) and Best (1990) insist that in a globalising world states are all the more important in developing the institutional configurations within which firms can flourish, given the new economic conditions of competition. Convergence will not occur, because the specific features of business systems will lead firms to specialise in some sectors and to disregard others, which in turn could lead to international competitive advantage and division of labour (Porter, 1990; Sorge, 1991). Globalisation may therefore end up reinforcing patterns of specialisation and the distinctiveness of national economies. These arguments seem just as convincing as those of the proponents of the convergence thesis, which is why another approach may be desirable.

which reason? motor of change?

1.3. Another perspective: a focus on organisational adaptation

It is very difficult to find a way out of this confrontation between the convergence and the divergence theses. In fact, there seems to be almost a formal point of no return between the two perspectives. The numerous studies produced over the last years start displaying some conventional conclusions, and this may have more to do with their disciplinary divides than with any convincing evidence. On the one hand, scholars interested in economic efficiency and performance seem to be driven towards the convergence thesis. They tend to insist on the possibility of agency from actors that break free from their national constraints to build up the global best practices and new ways of organising. On the other hand, scholars interested in comparative studies of countries and industries seem inclined to agree with the divergence thesis. They insist on the importance of institutions in constraining and orientating change. As a result, the debate between the convergence and divergence hypotheses is losing its fruitfulness (Djelic, 1998). In reality, part of the problem in addressing persisting differences in a context of globalisation and European integration is a consequence of the theoretical and methodological orientations that have been used so far. The deadlock between the convergence and divergence debates results from the subjective stance inside any research project in the social sciences. It is not surprising that researchers looking for differences will find some, just as it is not surprising that researchers looking at new social practices will find some kind of convergent upgrading.

The observer himself creates his object and formats it in a way that suits his research enterprise (Popper, 1963: 48). And the convergence and divergence hypotheses are the products of particular theories and methodologies. The convergence proposition that a best way to organise economic action will be generalised to the whole world is justified by using rational choice or evolutionist types of arguments. But rational choice theory fails to recognise that preferences, alternatives and outcomes are structured and restructured by particular social constructs, which are themselves historically bounded. The focus on agency misses a number of macro-social constraints. Evolutionist types of arguments concentrate on stages and on generic principles moving societies in one direction (Rostow, 1968). They miss the complexity inherent in change and tend to reduce reality to mere theoretical categories. The divergence proposition is sustained by those comparative political economists who insist on macro-institutional constraints. But their comparative methodology tends to point to differences and to overlook similarities. Moreover, the systemic view advanced in these approaches insists on the interconnectedness of various institutions and therefore emphasises reproduction and inertia at the expense of conflict and change (Lane, 1995: 13). It tends to ignore the possibility of agents altering their institutional environment. Another problem comes from their lack of a consistent theory about how institutions affect the behaviour of economic agents (Hall and Soskice, 2001). To escape the deadlock of the convergence and divergence theories, and the limitations of their understanding of reality, it is necessary to provide a new approach towards the analysis of change within business systems. In the present research, it is suggested that the study of organisational adaptation may offer an interesting perspective towards this end.

1.3.1. Firms, an appropriate level of analysis

Comparative political economy has traditionally paid attention to the state and to trade unions (Hall and Sockice, 2001: 2). The business system perspective draws attention to the relationships between five broad kinds of economic actors: (a) the providers and users of capital, (b) customers and suppliers, (c) competitors, (d) firms in different sectors, and finally (e) employers and different kinds of employees (Whitley, 1999: 33). To tackle business systems within the perspective of societal change, there could admittedly be several levels of analysis: macro, micro or meso, and several types of focus: individuals, the state, firms or even intermediary associations (Hage, 2000). Here, it is argued that business organisations, at a meso-level, should be the focus of attention, not so much to categorise their relationships with other economic actors, but first and foremost to monitor their dynamics.

The first justification for this choice is that firms have become key actors in modern capitalism. Firms were often neglected in contemporary Political Economy (Sally, 1994). But recent initiatives (Casper, 1997; Hancke, 2000; Mueller and Loveridge, 1997) have shown the potential interest of a firm-centred Political Economy. Many writers have acknowledged the increased importance of firms within society (Giddens, 1990; Ritzer, 1993; Sainsaulieu, 1990, Strange, 1996): they are regarded as centres of innovation and as capable of influencing and changing their social surroundings. The second reason for this focus on firms is that they play a key role not only in the definition but also in the production and in the re-production of business systems themselves. First, the key features used to define business systems are firm-centred: they focus on how firms are influenced and relate to a set of institutions (Whitley, 1992). But more importantly, they are both the repositories and the agents of transformation of national business systems. This is because of the properties of systems and in particular because of how they are reproduced over time, as explained, in particular, in Giddens' structuration theory.

Giddens conceives systems as "reproduced relations between actors or collectivities, organised as regular social practices" (1984: 25). This definition is similar to the concept of business systems presented earlier, as grounded in relationships between owners, managers experts, employees and institutions. In structuration theory, social systems are reproduced over time because agents activate (or constitute) their structural properties. Firms, as economic agents, carry internally the structural properties of their surrounding business system, the patterns of which they reproduce over time or even alter, in their actions and interactions. And they are key players in the maintaining and change of the business system, because they have a central role in the definition and re-production of it. Admittedly, they are not the only agents capable of changing the properties of the system: the state has without doubt this ability. But the factors of change in today's economy are so much related to firms that they are probably the most interesting objects of analysis, in any attempt to monitor how national differences remain or disappear. This is the reason why the present research focuses on business organisations. More precisely, the choice was made to focus on one particular process: organisational adaptation.

1.3.2. The problem of organisational adaptation

The approach taken in this thesis consists of monitoring how firms in a given business system adapt to changes in their environment. We argue that this focus not only helps to uncover business systems' internal dynamics, but also that it is compatible with our initial postulate that economic action is embedded within society.

The concept of organisational adaptation refers to the way firms alter their structures, routines and organisation to fit better with their market niche. Dynamic in nature, organisational adaptation corresponds to the Darwinian concept that living organisms survive because they are adapted to their environment (Darwin, 1968). Biological and ecological analogies have been considered appropriate to the study of firms within their context, because they are purposive and mortal entities (Alchian and Lott, 1997; Hannan and Freeman, 1977). Ultimately, a firm can survive only if it finds customers to buy its products, in other words, if it is adapted to the demand in its market niche. But while this is generally accepted, adaptation has only recently become a matter of concern for organisation theorists. Understanding why this should be will show why it fits with our initial perspective.

As Coase noted in his celebrated 1932 article, the firm had not been clearly defined by economists in their theories. And just as the firm remained unquestioned for a long time, the relations between firms and their environments were absent from organisational theory until recently. In the neo-classical economic model, as defined for instance by Walras in the 1930s, the firm is only a part of the price and resource allocation theory: it maximises profit in a perfectly rational and transparent market, where every resource and information is known and available. In a given technical set-up with perfect information and competitive conditions, the firm has therefore no difficulty in reaching an optimum by adjusting output or price respectively. As a result, adaptation is straightforward and immediately guaranteed in the neo-classical concept of the market. And for that reason there is no theoretical question about adaptation. The same is true in the idea of firms as closed systems. The scientific management literature does not question the environment: it is part of a process, the process of producing goods scientifically. The environment provides raw material and resources, which are then engineered through bureaucratic rules, following a careful analysis and an attempt to find out the one-best-way to organise production. The whole organisation is a machine, there is no problem in its relation to the environment, no question of adaptation. In short, for theories based on optimisation of resources and unlimited rationality, adaptation was not a theoretical problem. However, new perspectives on capitalism and society, which rejected both the over-socialised nature of sociology and the under-socialised nature of economics, looked at adaptation differently.

In the economic field, Schumpeter undoubtedly had an impact in promoting a concept of efficiency and change that criticises economic maximisation as a theoretical perspective. Capitalism is, according to him, "by nature a form or method of economic change," so that a process of creative destruction constantly "revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one" (1943: 82-83). Competition from new technologies and from new types of organisation is more effective than simple maximisation of existing resources. Because of constant change, only those organisations that best exploit the capacity of their environment can strive and survive. Only those adapting themselves to change can avoid being destroyed. Schumpeter contributed therefore to a theoretical perspective towards adaptation, as shown from his interest in adaptive mechanisms and especially the role of entrepreneurs. This analysis is still very influential today, as illustrated in the 'evolutionary economics' and Neo-Schumpetarian schools (Levinthal, 1994; Nelson and Winter, 1982). We should also mention the influence of Parsons, who gave adaptation an important role in his social system theory. For Parsons, adaptation is first and foremost related to the economy (1960: 164). Together with Neil Smelser he conceives the function of economic production as primarily an adaptive mechanism of society in relation to several of its environments (1956: 111). This relates not only to the allocation of resources but also to societal values and norms. Focusing on organisational adaptation means therefore focusing on the key function of firms within their business system. We consider a focus on organisational adaptation a suitable approach to tackle the problem of persisting diversities in a context of economic change, and to grasp how business systems retain or depart from their dominant patterns in a changing environment.

It is not by chance that the *Handbook of Organisational Design* (Nystom and Starbuck, 1981) has as a subtitle: "Adapting organisations to their environments." Adaptation is probably the key challenge facing business firms. In modern capitalism, the competitiveness of firms reflects their capacity to innovate, which is seen everywhere and is related to a constant adaptive process (Lundvall, 1992). Organisations are not self-directed and autonomous. They need resources like capital, personnel and supply, which are not always available. This results in an interdependency with other companies or individuals possessing these resources (Pfeffer and Salancik, 1978). For that reason, from the point of view of the organisation, change is driven by the relationship between the organisation and its environment (Cyert and March, 1963). Adaptation occurs when some attributes, such as business strategy, structure or routines, are changed in response to an environmental change, in order to fit some new environmental contingency (Levinthal, 1994). But adaptation will not be conceived here as a pure feedback response: adaptive adjustment can also include manipulative and political behaviour where organisations select and try to alter their environments (Hedberg, 1981: 3; Pfeffer and Salancik, 1978). By focusing on organisational adaptation, the present research attempts to escape the deadlock between the convergence and divergence theses. The process of organisational adaptation is a key element in the micro-foundations of business systems. It represents a core function of economic and managerial action and it has an impact on both the internal maintenance of the system and on its transformation. The research will attempt to monitor carefully how firms react to changes in their environment, and whether and how they depart from reproducing the dominant patterns of their surrounding business system. To do so, it will build upon the studies developed by organisation theories. But there is also another justification for an approach based on organisational adaptation, and one that arises out of a broader consideration of European integration.

1.4. At stake is also the path followed by European integration

As the European Union grows and intensifies, it has been the subject of more and more academic interest. European integration is often described as a catalyst (Merrill Lynch, 1998; White, 1998) that enables general trends of economic transformation to penetrate European economies; it is also a process of its own, which results in the creation of specific institutions and rules. And interestingly, the problem of organisational adaptation in an integrating Europe casts doubts on the path chosen towards a closer union.

The European Union is creating a new business environment for firms operating in the member-states (Nugent and O'Donnell, 1994: 1). It is also developing an original set of institutions, combining supra-national and inter-governmental dimensions (Nugent, 1994: 430). The scope of European integration is therefore not only about trade liberalisation; it is about the creation of a unique form of government, which could integrate nation-states in a common system (Hix, 2000). The Monnet method has followed functionalist theories of European integration, based on the idea that a 'spill-over' will extend the degree of integration from narrow economic co-operation towards political and social integration (Monnet, 1976: 537). And the evaluation of the Single Market programme, in particular, undermines the view that business firms will be an important vector of this integration.

Cecchini, in his analysis of the benefits of the single European market, anticipated "a new and pervasive competitive climate" which would stimulate businesses to exploit new opportunities and to use available resources better (1988: 73). Behind the evaluation of the benefits of the single market is indeed the assumption that European firms would take advantage of the Single European Market to restructure their operations, and to reach economies of scale and scope (Thompson, 1993; Tsoukalis, 1993). In other words, at the core of the single market project is the idea that firms will adapt to the new European environment produced by the dismantling of non-trade barriers. The central idea is therefore a 'Europeanization' of business activity: instead of remaining focused on their home market, firms will internationalise their activities and reach a European scale, either by themselves or through take-overs or alliances. The European Commission argues that only an internal market on a truly European scale can combine the advantages of technical efficiency and economic efficiency (Gibb & Wise, 1993: 109). The idea behind this concept is therefore not only that firms will adapt, but also that they will move from their national business system to constitute a European business system. This perspective is even evoked by Whitley:

> If, for example, owners, managers, unions, and other organised groups became structured at a European level, together with the emergence of a European state that dominated national and regional political systems and established standardised labour and financial systems across Europe, we would expect nationally distinct business systems to become less significant than the emerging European form of economic organisation. (1999: 46)

European integration and organisational adaptation are therefore linked together: organisational adaptation is expected to occur in reaction to European integration, and at the same time organisational adaptation is expected to foster integration and to create a European business system. Both processes are believed to be mutually dependent, which makes the study of organisational adaptation in an integrating Europe all the more interesting, not least because there are some doubts about the path chosen towards European integration and its capacity to forge a distinctive European system.

There is indeed a dualism in the process of European integration, between supranational European law and intergovernmental European policy-making. This can be described as the contrast between 'negative' and 'positive' integration: "measures increasing market integration by eliminating national restraints on trade and distortions of competition, on the one hand, and common European policies to shape the conditions under which markets operate, on the other hand" (Scharpf, 1996: 36). In the path chosen towards European integration, the negative option has dominated so far. The European Court of Justice successfully enforced non-interference from European Union (EU) member States (Garrett et al., 1998; O'Neill, 1994), while the principle supporting the single market programme was mutual recognition and therefore competition among rules (Woolcock, 1994). Moreover, positive integration was often blocked in the games of intergovernmental policy and often took the form of guidelines, networking and self regulation (Commission of the European Communities, 1994: 14; Kohler-Koch, 1996: 371), and directives, which are only binding as to the result to be achieved (Nugent, 1994: 210). By focusing on organisational adaptation, we may be able to offer interesting insights about whether negative integration is sufficient to build up a European business system. Moreover, as was pointed out by Schmitter (1997), it may well be that the rising tide of globalisation and interdependency will simply dissolve Europe by integrating it anonymously into the world economy. Admittedly, these issues are only in the background of the present research; but they are sufficiently important to justify our interest in this research question. Our analysis of organisational adaptation will show that simply opening borders is not a sufficient element to foster integration. The transformation of the French asset management industry was very much influenced by the European context, and in particular by European directives. We will show that in this sector, French firms have adopted practices that are not typical to their national system any more and that they replicate the international (Anglo-Saxon) patterns. But we will also insist that such changes were highly debated and that they did result from a positive integration mechanism: the constitution of a new organisational field. In other words, even if Europeanisation is only in the background of our study, we will notice that negative integration is not sufficient to forge a single European business system; a whole series of institutional initiatives is needed to constitute and structure anything alike.

1.5. Conclusion

This chapter had two objectives: first, to expose the general issue addressed by the research: the analysis of European business systems as they confront societal change; second, to show the limitations of the theoretical debate around the convergence and divergence theses, and to illustrate how the study of organisational adaptation could offer a more fruitful approach to the persistence of national specificities. These two objectives explain the relevance of such an issue in a European perspective. The thesis will therefore try to answer the following research question:

How do firms in a given business system adapt to changes in their environment?

In doing so, it will investigate whether firms depart from the patterns of their national business systems and it will consider if the emergence of a European business system is foreseeable. Before summarising the argument of the thesis, we will now outline its main methodological options, which are to a large extent the consequence of this research question and of our starting point.

2. Methodological considerations

Now that we have outlined our research question and positioned it in the literature, it is important to explain the methodology and to justify some of the choices that were made in the thesis. This means in particular justifying a qualitative and interpretative investigation as well as the choice of the case study: the French asset management industry over the period 1984-1999. One of the claims in the present thesis is indeed that some of the shortcomings in the literature dealing with persisting differences in business systems are the consequences of their methodological stances. Because we are interested in organisational adaptation as one of the dynamics that reproduce (or not) the dominant patterns of a given business system, we made a number of methodological choices and tried to develop specific conceptual tools. Two principles guided our investigation: theory as theory in practice, and as grounded theory. Theory in practice addresses an empirical case with the ambition of building a model, or theoretical framework, and of developing a coherent grammar of relations between clearly identified variables and concepts (Bourdieu and Wacquant, 1992: 204). This first guideline resulted from the observation that our study was confronted with a mass of data that we could not process without appropriate theoretical tools and concepts. Chapter III is dedicated to producing the framework we required. The second guideline, grounded theory (Glaser and Strauss, 1967), is the consequence of our initial remark that the internal dynamics of business systems have not been sufficiently theorised. At the modest level of a doctoral dissertation, we aimed to contribute to a better understanding of such dynamics, by generating theory from our research. The combination of these two guiding principles and of our research question led to two methodological options:

- qualitative research based on a longitudinal case study at a meso-level
- analysis based on hypotheses and conducted through a theoretical framework and through the construction of ideal-types

In the following pages, we will briefly justify these options. In the next chapter, we will focus on case study design and explain why we selected French asset management over the period 1984-1999 as a critical case study for our research problem, how firms in a given business system adapt to changes in their environment.

2.1. Methodological options

Given our research question and our position towards the literature, it soon appeared that we had several methodological constraints. First of all, we were interested in a dynamic process, organisational adaptation. This led us to opt in favour of qualitative research, using one longitudinal case study. Then, given the nature of the evidence required, we chose to conduct the investigation on the basis of hypotheses about the case, and to use a theoretical framework as well as ideal-types to analyse our findings.

Qualitative research appeared a natural consequence from our focus of attention. Quantitative research tends to deal less well than qualitative research with the process aspects of organisational reality (Bryman, 1989: 140). It is rarely possible to understand organisational change in quantitative studies, as we see in the investigations of the Aston Studies (Pugh and Payne, 1977). Such quantitative analysis may have succeeded in showing stable relationships between such variables as size and dimension of organisation structure, but they fail to tell us much about the dynamics of organisations. Survey methodology, it appears, makes it harder to find out what processes lie behind the correlations it may reveal (Hartley, 1994: 212). A qualitative approach is more likely to reveal changes and transformations, because it pays more attention to the context and to external aspects, and is therefore more appropriate to a research focusing on the relationships between the organisation and its environment. It is also a good way to analyse the subjects' own understanding of the situation and to look at their reactions without a limited number of explanations. In other words, a qualitative approach was more appropriate to the purpose of this research project. More precisely we opted for a case study method.

Case studies have been widely used in studies of organisational behaviour, especially in understanding organisational innovation and change, as shaped by both internal forces and the external environment. Classic analyses include Selznik's study of the Tennessee Valley Authority (1946), Gouldner's study of alternative patterns of organisation (1954), and Burns and Stalker's study comparing 'mechanistic' and 'organismic' forms of organisation (1961). Case studies have been significant in understanding formal and informal processes in organisations, as in socio-technical systems research (Trist et al., 1963) or action research. The strength of case studies lies especially in their capacity to explore how social processes impact on organisations (Hartley, 1994: 212). They allow for a contextual, longitudinal and process-based analysis of the various actions and representations inside and around firms. Moreover, they have a function in generating hypotheses and building theory, which is one of the objectives of this doctoral thesis, following Glaser and Strauss (1967). For all these reasons, the case study method was a natural choice for the research project. More precisely, we opted for a longitudinal case study at the meso level.

A longitudinal historical and process study (Scott, 1995: 80) was the natural consequence of research focusing on transformation and change: it is not possible to observe change without examining different historical moments. Moreover, and given the nature of organisational adaptation as a process, it was natural that the research should concentrate on processes. The second methodological option was to focus on the meso-level, by studying the adaptation of a population of firms within an organisational field, rather than one single organisation at the micro-level or a whole country at the macro-level. Operating at a meso-level makes it easier to analyse the relations between firms and their environment, since this level presents a number of actors and situations. It shows the differences between individual cases and highlights common patterns, which is most useful when analysing processes. Moreover this level of analysis is usually preferred by a number of scholars who focus on the relations between firms and their environment, such as organisational ecology and institutional theory. DiMaggio and Powell (1983) insist that:

> The appropriate unit of analysis in the study of institutional isomorphism is the organisational field (Aldrich and Reiss, 1976; Bourdieu, 1973; Turk 1970; Warren, 1967; Warren et al., 1974). By organisational field, we mean those organisations in a population that, in the aggregate, are responsible for a definable area of institutional life. In an organisational field, we would include key suppliers, resource and product consumers, and regulatory agencies, as well as other organisations that produce a similar service or product. (10)

For these reasons, our research focused on a population of firms within an organisational field. More specifically, when tackling the organisational field, it looked at the transformations of firms from the point of view of an internal observer, and tried to relate these to the way actors understood changes in their environment. This follows what Parsons defined as the subjective approach to the theoretical treatment of institutions (1990), which studies them from the point of view of the individual acting in relation to institutions. This approach constitutes a mid-way between the micro-level of individual actors and the macro-level of structures of relations or systems of action (Coleman, 1990), which fits particularly well with our attempt to avoid both under-socialised and over-socialised concepts of man. We will justify in the next chapter the choice of French asset management over the period 1984-1999 as our case study. The second methodological option regarded the analysis of the evidence.

First of all, the analysis was supported by the hypotheses which the various approaches found in the literature might have led us to expect in such a case. In tackling the problem of a changing environment, such as European integration, we faced a large number of variables and elements that are not easy to cope with (Humbert, 1993: 14). Adopting a hermeneutic approach, and trying to understand the phenomenon under study as it reveals itself, did not seem feasible in front of such a nebulous object. This would have led to the risk of losing grasp of the research question and of becoming absorbed in a mass of information, which is not always easy to decipher. The chosen method combined the use of generic hypotheses drawn from the literature about economic change with a theoretical framework that enabled a careful examination of organisational adaptation processes. In conducting the investigation and validating the hypotheses, we used a theoretical framework that presented organisational adaptation within the business system perspective, along sets of variables. Organisation theories were used as analytical tools, in order to provide a grammar and a codification of organisational adaptation and to categorise it along precise adaptation processes: change in the *entrepreneurial synthesis*, change in the *conception of control*, learning of new routines, manipulation of the environment. Chapter III will outline this framework, which was used as a toolbox, in order to interpret the dynamics observed in reality. The combination of a theoretical premise and of analytical tools proved useful in conducting a precise study while not losing focus in the face of such a large phenomenon as European integration. However, we made another decision regarding the validation of the hypotheses: to use ideal-types.

The thesis followed Weber's methodological stance that knowledge of the empirical world is not possible without concepts, and that it is necessary to build unified analytical constructs and ideal-types and to use them as a means for the analysis of historically unique configurations (Weber, 1949: 91). In the following chapters, we will compare the French asset management industry at the end of 1998 with the ideal-type corresponding to the situation in the mid-1980s, and explain the changes observed by reference to the ideal-type corresponding to the situation in Anglo-Saxon countries. Weber defines the ideal-type as a "conceptual pattern which brings together certain relationships and events of historical life into a complex which is conceived as an internally consistent system" (Weber, 1949: 90). Such types are not meant to be a comprehensive representation of reality; they rather represent a construct that elucidates and categorises reality. We decided to use such types to conduct our analysis rather than opting for a strictly comparative methodology. There are admittedly some comparative[1] dimensions in the study: as will be illustrated in the next chapter, some theories predicted that European integration and Anglo-Saxon leadership in the asset management business would drive French firms to adopt Anglo-Saxon practices. To grasp this comparative dimension, we could also have studied organisational adaptation within the British asset management industry, and compared results with the French case. This method, called comparative historical analysis, is advocated by Skocpol (1979) and Djelic (1998) because it combines detailed analysis and systematic comparison, and allows the tracking of regularities and

[1] Here we may remember Durkheim's methodological rule that sociology is fundamentally comparative (1937: 137).

similarities in the historical processes. Two reasons underpin our choice not to adopt such a method.

First of all, the size limit of a thesis would not have permitted two in-depth case studies: it did not seem likely that we could have revealed all the subtleties of historical developments if two countries or more had had to be tackled. In order to reach empirically valid conclusions, however, it was important to have sufficient precision in the observation and a sufficient number of companies to study. A comparative historical analysis would have incurred the risk of providing only general and unsubstantial evidence, and our basic aim of offering a precise account of the adaptation processes would not have been achieved. Secondly, this comparative historical method would have conflicted with our guiding principle of theory as theory in practice. It would not have been possible to develop any coherent theoretical framework, because international comparisons–as explained by societal analysis–require placing objects in their context (and not within desocialised variables) and comparing the incomparable (Maurice, 1989). Because they are historically and socially contingent, processes are not easy to translate. There was the distinct risk of comparing a British apple with a French pear while calling them identical in the theoretical framework: comparative historical method may lead to using concepts of such generality that they are merely empty, or to over-interpreting reality in ready-made categories that are not empirically grounded. Ideal-types, on the contrary, were regarded as most appropriate for the research problem, which was to measure whether and how firms would depart from the dominant patterns of behaviour in their surrounding business system. The purpose of ideal-types, in Weber's sociology, is precisely to analyse and identify deviations in the empirical world, in comparison with such types (Weber, 1978: 21). Moreover, the business system approach implicitly aims at producing ideal-types to categorise national economies; it is therefore particularly compatible with a methodology based on these[2]. Secondly, ideal-types appeared to be congruent with a research focusing on dynamic processes. They help interpret and understand social action, and in particular historical shifts, by showing sequences of purposive decisions (Weber, 1949: 101). The combination of hypotheses, a theoretical framework and ideal-types made it possible to draw a precise analysis of the case study, the French asset management industry over the period 1984-1999. In the next chapter, we will justify more precisely the choice of this case, as critical for our research question.

[2] Here we may identify one specific difference in orientation between the business system approach and societal analysis.

2.2. Data collection

The central empirical evidence and data collection related to the case study: the French asset management industry. The objective was to cover as many companies as possible, in order to have a good understanding of the whole population of firms. At the same time, the number of firms covered had to remain manageable, given that the investigation was actor-based and required direct contact with people in and around asset management companies. For that reason, the research material was to a large extent obtained through semi-directive interviews with managers and professionals in the industry. As far as possible the interviews were recorded and they lasted from 40 to 110 minutes with an average duration of a little less than an hour, and they were typed in a word processor before being analysed. Some of them were conducted by telephone. Questions were adapted to the interviewee, and were also related to the theoretical framework about organisational adaptation processes. It was possible to interview some 70 professionals, mainly in Paris but also in London, Brussels and Luxembourg. The object of the investigation was to gather evidence about transformation processes at the level of the field and at the level of individual companies. Consequently, various categories of actors were interviewed in areas related to asset management, notably professional associations, professional and consulting firms, financial authorities and other financial experts. In order to obtain different points of view regarding organisational adaptation processes within individual firms, an attempt was made to interview different categories of employees, with about 40 direct contacts. For each company at least one executive was interviewed, complemented when possible by someone working in the human resource department and someone in charge of the controlling area. Most of the time, it was also possible to draw upon direct company information and/or internal documents. For reasons that will be explained later, the population of the asset management companies was divided in three groups, with the objective of obtaining a good representation of the whole industry:

- six companies related to retail banking groups (category 1):
- five companies related to insurance groups, including the Caisse des Depots (category 2)
- five independent companies (category 3)

These companies were all of French origin, although some had been bought by foreign players in the very recent past. Together these sixteen companies represented 71% of the market, on the basis of the assets they managed at the end of 1998, as shown in the following table. To complement direct contacts and increase the total coverage of the industry, supplementary material was drawn from internship reports, market studies, professional magazines, Internet websites and a database provided by the financial media *L'Agefi*. A directory bought from the French professional association AFG-Asffi (1999b) was also used; it contained information on all French-registered portfolio management companies at the end of 1998. Altogether, this material was rather comprehensive, and it allows us to draw conclusions for the whole industry by providing a satisfactory representation of the population of companies.

Table 1: companies analysed through direct contacts; corresponding market shares in 1998

Name	Cate-gory	Associated financial group	Assets under management (FF Billions)	Market share %
Indocam	1	Credit Agricole-Indosuez	846	10%
SGAM	1	SGAM	829	10%
CLAM	1	Credit Lyonnais	638	8%
BNP Gestion	1	BNP	575	7%
Paribas Asset Management	1	Paribas	350	4%
CCF Asset Management Group	1	CCF	332	4%
CDC AME	2	CNP, Poste, Ecureuil	1025	12%
AXA IM	2	AXA	580	7%
AGF AM	2	AGF	324	4%
Finama	2	GAN-Groupama	270	3%
Victoire AM	2	Victoire	210	2%
ODDO AM	3	-	31	0%
Lazard Freres Gestion	3	-	22	0%
Cyril Gestion	3	-	10	0%
Financiere Atlas	3	-	3	0%
Sogip	3	-	1	0%
TOTAL sample			*6046*	*71%*
Total market			**8500**	**100%**

Sources: *AFG-Asffi* (1999b), company reports and author's estimations

The interviews were semi-directive: they mixed open and closed questions and were tailored to the position of the interviewees. Typically, they would start with an open question, "From your position, which are the major changes in your industry/firm?" and would then proceed with more targeted questions, related to the analytical framework. The objective was to record the personal understanding and opinions of various actors about changes in the French asset management industry, and/or within their firms, as well as to interpret and identify adaptation processes. Most interviews were conducted in French, some in English. During the analysis, the interesting quotes had to be translated into English, in order to be incorporated in the text.

2.3. Analysis

Interviews played a key part in the data gathering. The analysis was based on the transcripts from the interviews recorded. It started with a coding of the various themes in the interviews, regardless of the underlying research questions. The different themes were then classified and ordered following the relationship between them. The resulting list was then compared with the research questions and re-ordered so that the themes would fit the theoretical framework. Finally, some patterns were deduced from this comparison and some conclusions were drawn about the interviews. Obviously, the rest of the research material was used in this process to document and back up the analysis of the interviews and to provide further evidence for the identified patterns.

Now that we have clarified our methodology, it is possible to outline briefly the general argument of the thesis before tackling, in the next chapter, case study design.

3. Thesis argument and chapter plan

The thesis will proceed in five stages and eight chapters:

1. problematisation and methodology (chapter I)
2. case study design: selection and hypotheses (chapter II) and theoretical framework (chapter III)
3. empirical investigation (chapters IV and V)
4. analysis of the adaptation processes (chapters VI and VII)
5. conclusions (chapter VIII)

Two contributions will be made to the analysis of European business systems. The first one is of a methodological nature and regards the development of analytical tools to tackle dynamic processes of adaptation within the business system framework. We will show how a specific definition of the firm using three layers (*entrepreneurial synthesis*, *conception of control* and *organisational routines*) enables us to relate the firm coherently to its institutional environment. Applying the framework, chapter IV will show that the French model of the mid-1980s corresponds to integrated structures, with fund managers at the core of the business, with human resource management and industrial relations based on collective agreement and on internal mobility, and with customer relationships founded on personal contacts. The Anglo-Saxon model, in contrast, displays an autonomous industry, with an organisation based on an investment process where fund managers have to comply with company rules and monitoring, where human resource management is based on the external labour market and the personnel has a higher and performance-related pay, and where customer relationships are founded on careful selection and professional scrutiny.

The second and core argument of the thesis, which will result from a careful examination of the case study, is that existing frameworks fail to understand the dynamics of national business systems, because they do not pay sufficient attention to the constitution of new organisational fields in sectors and across borders. We will show that it was possible for firms in the French asset management industry to adopt patterns of organisation and behaviour that differed substantially from their national business system, and that such a development cannot be explained without referring to the emergence of a new organisational field operating with different rules. In chapter II, we will show that French asset management is a critical case because on the one hand it faced radical change and European integration, and on the other it was intrinsically linked to national institutional configurations. Given the domination of Anglo-Saxon players, the peculiarities of the business, and the nature of the changes within it, existing theories about adaptation will lead to four hypotheses:

1. French firms adopt the dominant patterns of the Anglo-Saxon asset management industry
2. the patterns of the French model remain unaltered
3. a hybrid situation
4. France's asset management is moved to an Anglo-Saxon business system, such as London

While the business system perspective would have suggested the persistence of differences between French asset management and Anglo-Saxon patterns, we will show in chapter V that the situation of the French industry in 1999 was very similar to the Anglo-Saxon model of asset management. Chapter V will also identify two puzzling elements: first, a portion of small French companies that focus on private clients have kept the French model of the mid-1980s; and second, change did not occur when market pressures were released: it occurred only later, with a series of developments at the regulatory and professional level. The case study will therefore show that none of the theoretical hypotheses can characterise the transformation of this industry. They miss a key element, the importance of the emergence and constitution of a new organisational field, where new rules can apply which may differ from the rules in the over-arching business system. Chapter VI and VII will examine in detail how asset management was constituted as a new organisational field, and how one particular coalition of elite asset managers was able to gain government support in 1996 and enable the asset management business to achieve autonomy from banking. The subsequent processes of structuration of the new organisational field will then be analysed, and in particular the role of institutional agents and calculation tools. The conclusion in chapter VIII will allow us to draw up a possible research agenda.

CHAPTER II. CASE STUDY DESIGN AND HYPOTHESES

In the previous chapter, we outlined the general problem, the argument of the thesis and the methodology. This chapter tackles the design of the case study as a critical case and defines four competing hypotheses about the case: how, looking at the changes in their business environment, would we expect French asset management companies to have adapted? Consequently, we give here an overview of the asset management business and of the generic changes in the French environment; and we look at the main theories about adaptation, to recognise three generic approaches, which emphasise different adaptation drivers and processes. We then examine in more detail the properties of the French asset management industry, using secondary literature and newspaper articles as well as some interviews, conducted mainly outside France, with investment professionals and members of the European Commission. The examination of the case will show, however, that the convergence/divergence debate re-surfaces when organisational adaptation in the French asset management industry is addressed. The nature of the changes in their environment and the Anglo-Saxon supremacy in the business suggest that the adaptation of French firms may indeed mean only adopting the practices of American and British players. This leads to four possible hypotheses about the expected adaptation of the industry.

1. The generic perspectives about organisational adaptation

In our attempt to establish theoretical hypotheses about the case study, it seems natural to start with the various theoretical accounts of organisational adaptation. However, organisation theory is ~~as~~ very heterogeneous in the different approaches it displays, probably because organisations are incredibly complex and offer a wide range of levels of analysis.[3] Despite this variety, one can identify three families of theories, each of which has a particular understanding of organisational adaptation. The objective here is not to undertake a critical

[3] For instance, Stogdill identified eighteen different premises and orientations in theories of organisation (quoted by Champion, 1975: 26) while Reed reviewed ten theory groups and research programmes about organisations (Reed, 1992).

review of these theories, but simply to present their generic perspectives and identify what they may tell us about our research question.

1.1. Three families of theory

In the literature, one can identify three families of theory about organisational adaptation. One fundamental difference can be noticed. The first and most widespread approach, elaborated in economics and managerial literature, regards adaptation as the capacity to fit with an environment, whereas the other two approaches, the evolutionary and sociological perspectives, consider it as a capacity of the environment. Here again therefore we find the usual debate within organisation theory between purposive-action and environmentalist approaches, each of which provides a framework for the analysis of organisations (Child and Kieser, 1981: 29). When we consider briefly the three perspectives, we will notice that they each insist on different drivers of adaptation.

The first family of theories regards adaptation as a problem-solving operation, where the optimal organisational form is elaborated to best fit with the constraints and opportunities in the environment and to achieve the highest degree of efficiency. This is probably the most widespread concept of adaptation, to be found in textbook economics as well as in most of the management literature. It considers that the economic agents in the firm have the capacity to act upon the organisation or its environment so that the former becomes adapted to the latter. The neo-classical economic model conceives firms as systems for managing production. Rational optimisation through price mechanisms makes the firm perfectly adapted to its environment (Baumol and Blinder, 1991: 541; Begg, Fischer and Dornbusch, 1997: 91). The transaction-cost model is more refined because it integrates the institutional environment of firms and issues of governance, by saying that the capitalist firm is the culmination of efforts to economise on the transaction costs that arise from universal features of the institutional environment (Coase, 1937; Williamson, 1975, 1985). But the same idea applies: the efficient organisational form will result from the evaluation of transaction costs and their minimisation by rational actors, given the constraints in their institutional environment. In other words, within these perspectives economic agency will lead to efficient adaptation under competitive pressures. The same idea can be found in the management literature.

Scientific management, in the tradition of Taylor (1911), considers adaptation as a technical problem, where the organisation is designed and adjusted in the best possible way to respond to the demands of customers. Contingency and strategic choice theories recognise that the organisations that more closely fit or match the requirements of their environment will be more effective than those that do not (Burns and Stalker, 1961; Child, 1972; Emery and Trist, 1965; Lawrence and Lorsch, 1967). Consequently, a reduced performance will trigger managers and their advisors in the field of Organisation Development and Change Management to analyse their environment and implement new strategies and new policies that fit better with the environment (Donaldson, 1987: 2; Galbraith, 1973: 2; Miles and Snow, 1978: 21). Adaptation is therefore a positive response to a performance problem: the firm needs to engage in a continuous search for ways to maintain and adapt the capabilities that are the basis of its competitive advantage. This may also lead firms to try to alter their constraints, as claimed by the resource-dependence perspective (Pfeffer and Salancik, 1979), through mergers, alliances, political lobbying etc. Some scholars even consider the capacity of firms to choose the business system where they want to operate, in order to benefit from a societal fit. For a series of reasons, some national economies or regional districts provide the firms in their area with a competitive advantage in certain businesses (Porter, 1990: 74; Sorge, 1991; Soskice, 1991). They would then adapt their environment to their business by choosing the right location and possibly moving to a suitable one. In all cases, in the economic or managerial approaches, the driving mechanism for adaptation appears therefore to be voluntary efforts to optimise economic efficiency. There is however another perspective to be found in the literature, which tend to focus more on environmental pressures than on the purposive-action of firms.

The second theoretical stance towards adaptation relates to evolutionary perspectives. A number of theories consider adaptation not as a rational agency of economic actors or managers, but rather as the ex-post indication of a successful adaptation. This idea is the most closely related to the principle of social Darwinism, where the forces of competition and selection will lead to a survival of the fittest (Spencer, 1996). Only those firms that are adapted to their environment will survive, while the others will go bankrupt or voluntarily go out of business (Aldrich, 1979; Campbell, 1965; Carroll, 1984; Hannan and Freeman, 1977). Within this perspective, adaptation is a rather blind prospect, since it is only after some have won and some lost that the appropriate organisational form can be recognised. Given this, such a perspective is not very useful for the present research. Moreover, different authors have privileged different drivers to explain change and adaptation. The most general view, found in the population ecology school within management, defines selection as a market- and competition-based mechanism. Schumpeter and his followers focus mainly on technological innovation; this is also the perspective of economic growth theories (Galbraith, 1971; Kuznets, 1966). But other authors have also mentioned cognitive elements, such as the production of new routines as in evolutionary economics (Nelson and Winter, 1982), or organisational learning (Dosi and Malerba, 1998; Levitt and March, 1988). Interestingly, some authors also integrate the constraining role of institutions in the selection process (Hannan and Carroll, 1992; Dobin, 1994), an element which offers a bridge to the third perspective on adaptation. The second driving mechanism for adaptation appears therefore to be evolutionary upgrading, through selection and through the diffusion and institutionalisation of new technology and knowledge.

The third theoretical consideration about economic change relates to political and institutional arguments that change and adaptation are imposed by the firm's environment. This is for instance the argument of Marxist writers when they claim that the capitalist class and its managerial allies imposes on the workers particular organisational structures, which are not market-efficient but rather aimed at maximising control and profits (Braverman, 1974; Burawoy, 1982). Without referring to class struggle, a similar concept could be that the actors having more economic resources, like trans-national corporations (Korten 1995), or more political power, like gender groups (Acker, 1990), large states, lobby groups, or professions (Burawoy, 1985; Sabel, 1982), may impose new rules on organisations. A not so distant version can be found in the neo-institutionalism in organisational analysis, where it is argued that organisations strive to maintain legitimacy by conforming to institutionalized beliefs about how they ought rationally to be constructed (Meyer and Rowan, 1977; Meyer and Zucker, 1989). Power is replaced by or rather included in considerations of legitimacy, and therefore the analysis is more complex, because not only politics but also various cognitive elements and institutional dimensions can be taken into account, following Berger and Luckmann (1967). Ultimately, the idea is that social and institutional conditions will define the rational organisational structure and literally make the organisation adapted. This may occur through various mechanisms and confrontations before a solution is reached that is then institutionalised and diffused to the whole organisational field. Powell and DiMaggio (1983) identify three means by which a common organisation structure becomes generalised: coercive, mimetic and normative isomorphism. Here again, the core theoretical argument is that the driving mechanism for adaptation is the pressure to conform to the dominant and legitimate social dogma.

This short overview is only a brief, and admittedly superficial, review of the prominent approaches towards adaptation[4]. But it should already have given a clear picture of the confrontation between several theoretical perspectives. In particular, we showed that competition, innovation and institutional constraints had been identified respectively as the main drivers of adaptation. One element, however, is worth mentioning, since it relates the

[4] A closer examination of the actual processes of adaptation will be presented in the next chapter.

present concern to the starting point of the thesis. It appears that these perspectives about adaptation can be related to the convergence/divergence debate. Such a remark is important at this stage of the thesis, in order to avoid confusion about the object of the research, and to stress it focuses on adaptation: as we will see in the following pages, the Anglo-Saxon supremacy slightly mixes the two angles.

1.2. Adaptation and the convergence/divergence debate

Not surprisingly, there are some parallels between our research question and the three perspectives on adaptation we have identified. In particular, our starting point in the thesis goes together with the perspective that diversities will remain between national states, and not converge. This corresponds to the theory expressed for instance by Whitley (1999: 3), that "societies with different institutional arrangements will continue to develop and reproduce varied systems of economic organization with different economic and social capabilities in particular industries and sectors". Adaptation is therefore linked to the convergence/divergence debate.

Adaptation in most of the theories we mentioned will lead to convergence: convergence towards the most efficient organisational form, the one best way, because of competitive pressure and selection; or convergence towards the most legitimate one, the one that the most powerful agents will impose. But some theories about adaptation also recognise the importance of national institutional constraints. The sociological and political understanding of adaptation, that it is driven by the social environment, opens the possibility of persisting differences between nation-states, provided the dominant institutions exert different pressures. Selection may be influenced by institutional elements, which would discourage firms in different environments from adapting in the same way. Parallel adaptation and transition in which countries evolve along diverse trajectories would leave them distinct (Zysman, 1995a: 442).

Moreover, contingency theory, despite its insistence on efficiency as a driver of adaptation, is opposed to the idea of a one best way (Galbraith, 1973: 2). Combined with the notion that national economies display specific institutional properties, contingency theory leads in fact to a divergence theory. Because some societies, given their institutional configurations, favour particular types of activities, it would be more efficient for companies to try to locate their activities in these societies (Porter, 1990: 19; Sorge, 1991). This creates increased international specialisation and hence divergence.

All these elements show that organisational adaptation and the problem of persisting differences among national business systems are related. It also shows that the same drivers of adaptation may lead to different expectations in terms of convergence, depending upon the institutional properties of the environment. In other words, in order to design the case study, and to make the best use of the theories we mentioned, it is necessary to look at several dimensions: competition, innovation and institutional constraints, and to choose an industry accordingly. It is now possible to explain why we selected the French asset management industry 1984-1999 as a critical case.

2. The choice of the case study

The present research is based on one case study: the French asset management industry over the period 1984-1999. Here we show how both theoretical considerations and pragmatic elements regarding access and familiarity with the field were taken into account in the attempt to design a critical case. First it may be useful to recall the purpose of the case study. Our theoretical concerns regard European business systems and how they deal with societal change, through the analysis of organisational adaptation. We therefore want to test whether firms, in a context of European integration, depart from the dominant practices of their surrounding business system. Because we start from a clear theoretical proposition a research design based on a single-case study is appropriate, provided it represents a critical case (Yin, 1994: 38). We will show the steps that lead to the selection of the case.

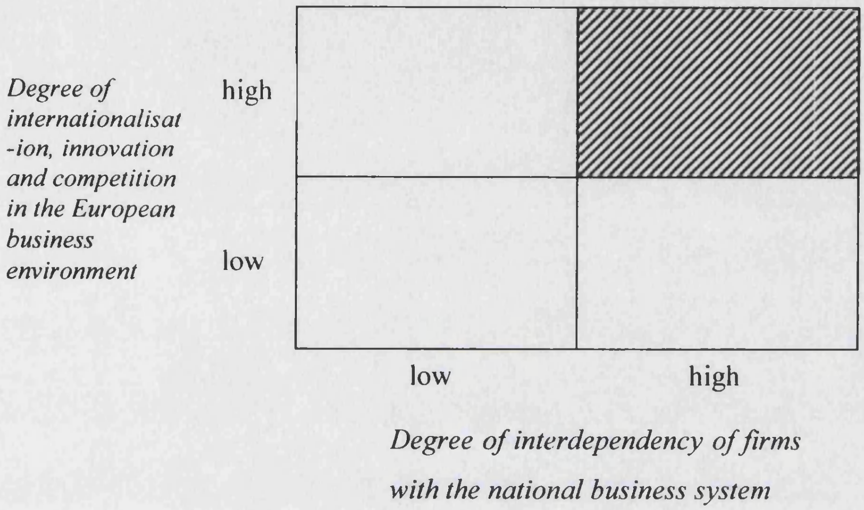
2.1. Designing a critical case

To find that critical case, we proceeded iteratively, and tried to combine theoretical considerations with pragmatic feasibility. We started from Roche's advice to begin by examining theoretical concerns and to move from there to elaborating a case selection (1997: 102). In the last paragraph we identified market competition, innovation, and institutional constraints as factors driving organisational adaptation. Our research question focuses on the problem of internationalisation. Consequently, and given the tensions between the three families of theories and their links with the convergence/divergence debate, we should design our case study along two dimensions:

- the degree of internationalisation, innovation and competition in the European business environment, which is expected to stimulate firms to adapt by departing from the dominant patterns of their national business system

- the degree of interdependency of firms with their national business system, which is expected to prevent them from departing from the dominant patterns

In other words, if we want to have a critical case that addresses our research question, we should find one industry in the upper right corner of the following matrix, high on both dimensions:



If we start with the first dimension, we need to find a sector where organisational adaptation is expected, where it is related to internationalisation, where competition and innovation have increased, hence where borders have opened. Because of the single European market, there are several possible sectors: for instance telecommunications and new technologies, publishing and media, chemicals or financial services. At this stage, financial services already appeared a valid candidate. It is probably the sector where European integration is the most advanced, with free movement of capital achieved inside the European Union (Commission of the European Communities, 1997) and a single European currency. Also, in continental Europe, it represents a critical example for the study of organisational adaptation, given the scope and the speed of transformation. In Latin countries, and to a lesser extent in Germany and Northern Europe, financial services moved within twenty years from a state-controlled industry with no freedom of movement and heavy national regulation to a fast-moving fast-changing business operating on an international basis and deregulated. France seemed one of the best countries in which to investigate the impact of such elements, because it is probably the country in Europe that changed most, with a strong development of financial markets as opposed to credit-banking. And as France is the ideal-type of a state-centred economy, the nature of the changes in the European environment (deregulation, retreat of the state and internationalisation) represent a direct attack on its institutional foundations. Moreover, having myself studied finance in a French business school and worked in a French insurance company, I had some knowledge of French asset management and I knew it had experienced accelerated change over recent years.

But the final selection resulted mostly from the conclusion that French asset management was undoubtedly one of the best case studies available for the research question, given its remarkable interdependency with the national business system. If we follow Whitley (1999: 48) there are four key institutional features structuring business systems:

1. the state
2. financial system
3. skill development and control system
4. trust and authority relations

Given French asset management's clear interdependency with each of these dimensions and a high degree of change in its environment, we will show in the following pages that it represents a critical case for our research question.

2.2. Asset management: definition

It is not easy to present a clear picture of the asset management business. In fact, as we will see later, the very existence of asset management and the recognition of its specificity as opposed to other financial services were critical issues in the story of its transformation in France. It is possible, however, to provide a relatively simple definition of this business, especially in a European perspective.

Historically, the first asset managers were in charge of managing the wealth of rich families and kingdoms. For instance, Colbert, the famous French statesman who developed principles known as mercantilism, was a sort of asset manager. He was first hired, in 1651, by Cardinal Jules Mazarin, chief minister of King Louis XIV, to handle his personal finances. After the French revolution and the recognition of private property as a fundamental of society in Napoleon's Code Civil, asset management in its modern understanding began to develop, as some Jewish or Protestant banks, such as Rothschild, Mallet, Worms and Hottinguer, set up their investment banking activities, especially wealth management, in Paris around 1812 (Bergeron, 1991: 36). Initially a service supplied only to the richest of France's families and entrepreneurs, asset management was progressively extended, in particular after World War II, to a whole range of clients, thanks to the creation of mutual funds in 1960 and to the growth of retail banks and their portfolio management services. As a result, Crédit Lyonnais, one of the largest French banks, managed in 1987 more than 1.1 billion portfolios of securities and the accounts of more than 34,000 wealthy individuals. However it is important to understand that asset management is a complex activity that requires a particular expertise in terms of monitoring one's clients' needs.

European law, as expressed in the legislation leading to the Single market, distinguishes three generic types of financial services: insurance, credit and services related to bank accounts and investment services. Asset management is part of investment services, as shown in the Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field. It corresponds to the number 3 in the section A and 6 in section C of the Annex of the Directive:

ANNEX Directive 93/22/EEC on investment services in the securities field

SECTION A: Services

3. (a) Reception and transmission, on behalf of investors, of orders in relation to one or more of the instruments listed in Section B
   (b) Execution of such orders other than for own account
4. Dealing in any of the instruments listed in Section B for own account
5. Managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more of the instruments listed in Section B.
6. Underwriting in respect of issues of any of the instruments listed in respect of issues of any of the instruments listed in Section B and/or the placing of such issues.

SECTION B: Instruments

1. (a) Transferable securities
   (b) Units in collective investment undertakings
2. Money-market instruments
3. Financial-futures contracts, including equivalent cash-settled instruments
4. Forward interest-rate agreements (FRAs)
5. Interest-rate, currency and equity swaps
6. Options to acquire or dispose of any instruments falling within this section of the Annex, including equivalent cash-settled instruments.

SECTION C: Non-core services

1. Safekeeping and administration in relation to one or more of the instruments listed in Section B
2. Safe custody services
3. Granting credits or loans to an investor to allow him to carry out a transaction in one or more of the instruments listed in Section B, where the firm granting the credit or loans is involved in the transaction
4. Advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings
5. Services related to underwriting
6. Investment advice concerning one or more of the instruments listed in Section B
7. Foreign-exchange service where these are connected with the provision of investment services

But this legal definition of asset management as one among other financial services remains rather abstract. The nature of the relationships between the asset manager and his client help clarify further the nature of this business.

Any economic agent can potentially use an asset management service, provided it has some free cash: individuals who have savings, corporations, state agencies or charities with positive cash flow, or institutions that are intermediaries between savers and users of capital. Fundamentally, an Asset Manager invests funds on behalf of his clients. "His primary task is to invest the flow of cash from pension contributions, insurance premiums, and personal savers in a portfolio of financial assets that will best meet clients' needs" (British Invisibles, 1997). Asset management companies provide a pure service, which is their expertise in investing cash properly to best satisfy the wishes of their client. Instead of managing their funds themselves, individuals and corporations will pay the asset management firm to do it on their behalf. Admittedly, there is a wide choice of securities. In the case of wealth management, which is the side of the asset management business dedicated to wealthy individuals and which almost always include tax advising, some portfolios might be invested in real estate, fine art, armouries or even diamonds. In some case, funds may be invested in non-public companies, such as high-tech start-ups or very profitable small businesses. But in the vast majority of cases, the portfolios are invested in the Stock Exchange, in equities, bonds, money markets, options, futures, swaps etc. A large part of the industry is also covered by mutual funds[5], which are called in France *Société d'Investissement à Capital Variable* (SICAV) if they are open-ended, and *Fond Commun de Placement* (FCP) if they are close-ended. The talent of asset management professionals is to select determined securities at the right moment and for the right period, in order to achieve specific objectives in terms of a combination of return and risk. This requires a particular expertise and it is a difficult exercise, given the nature of financial markets and their inherent unpredictability. But asset management presents some other peculiarities, which make it dependent upon national institutional constraints and illustrate its interdependency in the French business system, as we will underline later. For our case design it is first important to recognise the extent of the changes in the business environment of French investment firms.

2.3. French asset management is critical in terms of change

We explained earlier that the choice of a critical case study for the purpose of our research question required us to find an industry whose business environment had changed dramatically, and in particular -to fit with the perspectives on adaptation- where competition and internationalisation had increased substantially. French asset management appears a very

[5] A mutual fund is operated by a portfolio management company that raises money from shareholders to pool them in the fund and invest the money in a variety of securities.

valid choice on this dimension: the French financial regulatory framework evolved considerably during the 1980s. It went from a statist system where financial markets were heavily controlled by the government to an open and liberalised one, with little state involvement and a single European currency. France's decision to come into line with European economic integration led it to foster a new financial system, a new business environment for asset management activities. The following pages aim at presenting this process of change, which also represents the general context of the case study.

2.3.1. France's statist financial system

Everywhere in the world the financial system comes under close government scrutiny: prudential ratios and regulatory control aim at preventing systemic risks in a sector vital to the whole economy (Harris, 1997; Loriaux, 1997). In France, the state had built a particularly strong constraint on the banking system, and used it as an instrument of its economic, industrial and even external policy (Dressen and Roux-Rossi, 1996: 21). In fact, until the mid-1980s, France had one of the most regulated financial systems in the industrialised world, with a high degree of government involvement in almost every aspect of the financial markets (Swary and Topf, 1992: 99). In the late 1970s, credits represented two-thirds of the financing of the French economy and more than 80% of banks' assets. In such a context, stock exchanges played a marginal role, as opposed to the situation in Anglo-Saxon countries: for instance, in 1988, stock market capitalisation was equivalent to barely 24% of France's GDP against 85% in Britain.

The first aspect of this state involvement was that in 1984 the state actually owned most large banks and insurance companies: state-owned banks controlled 87% of deposits and provided 76% of credits in 1984 (Plihon, 1998: 32). Apart from this institutional presence, the state used an array of controls on interest rates and capital flows, and had a strong control of stock exchange operations. France's capital market was dominated by government debt; price movements were controlled and commissions were fixed. Until 1988 'agents de change' (the French equivalent of stockbrokers) had the monopoly of transactions on the stock exchange. Interestingly, they were not profit-driven financiers, but ministry officials (and hence public servants) nominated by the Finance Ministry. In addition to a series of rules and controls, the number of agents de change was fixed by the ministry of finance and was a *numerus clausus,*[6] which means a restricted profession. Such an environment was not likely to give many investment possibilities to portfolio managers, whose activity was also tightly controlled. Secondly, the regulation of the asset management business was very state-centred. Legislation

[6] For a long period the number of these stockbrokers was limited to 60.

distinguished between collective and individualised asset management. The first dimension of asset management regulation regarded individualised portfolio management. The 21 December 1972 law governed the activity of 'remisiers' and portfolio managers, who had the right to manage portfolios of securities for their clients. These professionals had to have a card, the auxiliary to the stock exchange profession card, which was issued by the stockbrokers' (agents de change) union. These individuals, together with financial institutions such as banks and insurance companies could take mandates from their clients, often wealthy individuals, to manage their portfolios. The other segment of the business, collective asset management, was achieved through setting up mutual funds. Investment companies were created in the early 1960s, for the purpose of investing into portfolios of securities: FCP, which are closed-end funds,[7] and SICAV, which are open-ended funds.[8] However, the rules governing asset management were restrictive and yet again characterised by state control. The creation of a new SICAV had to obtain the agreement of the Finance minister, after the 'Commission des Opérations de Bourse' (COB), the regulatory authority of the French stock exchange, had issued an opinion. There was a legal limit on the size of mutual funds, and the Treasury director had the right to limit the capital issue of open-ended funds, on an individual basis. The capital structure of mutual funds was also controlled by the state. For instance, they could not hold more than 20% in cash, they were restricted in their investment in futures and options and they were banned from swap operations. All these aspects of French asset management explain why a report by OECD in 1987 could say "market mechanisms played a fairly minor role in the way the financing of the French economy functioned" (quoted by Swary and Topf, 1992: 100).

2.3.2 The choice of Europe: from state to market

In 1984 however a new banking act brought in substantial modernisation. French policy under Mitterrand in 1982-83 had taken a dogmatic approach with nationalisation, increases in wages and social benefits, and state aid which however led to falling reserves, a rising trade deficit and inflation. The decision made in March 1983 to leave the franc in the Exchange Rate

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[7] "Type of fund that has a fixed number of shares usually listed on a major stock exchange. Unlike open-end mutual funds, closed-end funds do not stand ready to issue and redeem shares on a continuous basis. They tend to have specialized portfolios of stocks, bonds, convertibles, or combinations thereof." (Downes and Goodman, 1998)

[8] SICAVs are registered companies and they sell mutual funds to the public; they can issue new shares on demand. Mutual funds shareholders buy the shares at net asset value and can redeem them at any time at the market price. The funds are invested in stocks, bonds, or money market instruments.

Mechanism (ERM) meant a period of necessary austerity, a re-alignment of monetary policy towards stability and a close link to the Deutschmark. Mitterrand's economic U-turn was indeed, as he explained it later in his *Lettre à tous les Français,*[9] the choice of Europe. It ultimately provided the thrust for the completion of the European single market and the creation of the single currency (Moss, 1998: 58). Choosing to integrate France into Europe resulted in the economy transforming itself from a statist one to a market-driven one (Schmidt, 1996). This also meant major changes in the business environment of asset management companies. The transformations in the environment of the asset management business over the period 1984-1999 are characterised by three of the properties we are looking for in a critical case: deregulation, innovation and internationalisation, and the strong influence of European integration.

From 1984 to 1988, in a very brief period called "le petit bang", the Paris stock exchange had its revolution and in 1989 it was the second most open financial market in Europe. Ten years later, on the first of January 1999, France embraced the single European currency, which was another step towards European integration. The 1984 banking act was the starting point of a deregulation process in France. It set up a single regulatory framework for every credit institution and relaxed a number of state controls. Credit control and savings control was abolished. Soon after, and progressively, in 1984, 1986 and 1989, foreign-exchange controls were also relaxed. The market in government bonds was re-organised in 1985 and in the same year, the French-franc Eurobond market, which had closed in 1981, was re-opened. This meant new opportunities in terms of investment. The transpositions, in 1988, of the European directives of 20 December 1985 on European UCITS (Undertakings for Collective Investment in Transferable Securities) and, in 1996, of the 1993 directive on Investment Services provided new and more liberal rules. Deregulation meant that the government was deprived of direct control of investment companies, the supervision of which was given entirely to the stock exchange authority, the COB. Brokers' fixed commissions were abolished (Dixon, 1991: 9).

Moreover, the agents de change, who had the monopoly of transactions on the stock exchange, were dismantled in 1988. These individuals were replaced by the stock exchange companies, which were given the trading monopoly on the stock exchange. The 2 August 1989 law completed these changes, modified certain investment rules and modified the

[9] Letter written by the French president in all major newspapers on the eve of his re-election campaign.

professional landscape of asset management. It abolished the profession of 'remisier'[10] and created a unique framework for portfolio management: only registered companies could manage portfolios and they had to be agreed by the COB, the stock exchange authority. Specific portfolio management companies could be created, with a minimum capital equivalent to FF 500,000, or 0.5% of assets under management (Storck, 1990). However, stock exchange companies and banks were still allowed to manage portfolios, under the banking or investment services regulations. The 1989 law also created a disciplinary council for mutual funds. Made up of two government officials, a COB representative and seven professionals, this council was given the tasks of ensuring that investment companies maintained professional standards, and of protecting their shareholders. This supervision was to be achieved through stricter agreement procedures rather than by state control (Boeglin, 1989). This was complemented by a code of ethics for mutual funds, which was inspired by a working group of investment professionals and then published, in 1988, by the COB.

All these elements show that the environment of French asset management companies went from a statist regulation system to a liberal one with some professional self-regulation. This was further amplified by the Modernisation of Financial Activities Law of 1996, which was the transposition of the European 1993 directive on Investment Services. This law clarified the scope of investment services as well as their regulatory supervision. It provided an integrated framework for asset management, by covering collective investment as well as mandates; it also reinforced the importance of agreement procedures and rules of conduct, and specified the competencies of the regulatory authorities. Interestingly, the law went further than the European directive in clearly identifying asset management as a specific business distinct from banking. We will show later that some events surrounding this development had a critical importance in radically transforming the industry. In addition to deregulation, the evolution in the environment of French asset management industry was characterised by innovations in the financial market, the playing field of investment managers.

2.3.3. Innovation

Over the 1980s, a process of innovation was initiated that substantially increased the volume of direct financing through the financial market. The 1981 decision to dematerialise securities came into force in November 1984: 'paper' securities were replaced by a paperless securities

[10] The *remisier* were intermediate brokers who had their own privileged clients, whom they advised on their investments. They would get a discount (or remise) off the broker's commission, in exchange for bringing their clients' orders to him. (Pilverdier-Latreyte, 1991: 115)

circulation system. Shortly before, in 1983, the Second Marché, a second stock exchange for smaller companies, had opened. New financial instruments were introduced, such as the Commercial Paper Market in December 1985, Treasury bills and the Financial Futures Market (MATIF) in 1986, and the Options Market (MONEP) in 1987. In 1986, a continuous electronic trading system (CAC) was introduced. This was complemented by the computerisation of the Paris stock exchange in 1989 and 1991, a signal that France was at the forefront of financial innovation. In 1986, when the right came back to power and Jacques Chirac became Prime Minister, a number of privatisations –including those of such banking groups as Indosuez, Paribas and Société Générale- helped double the turnover of the stock exchange. All these elements resulted in a boom in the asset management business: collective investment vehicles reached 1.4 FF trillion in assets in 1988, or 50% of the European market. This shows that by the middle and late 1980s France had an established asset management industry, and that the first movements of liberalisation and innovation had their impact early on. Later we will show that despite this French firms were slow to adapt and only did so, eventually, after 1996 and through a series of specific agencies.

2.3.4. Internationalisation

Finally, the French business environment of asset management in the period 1984-1999 is characterised by an increased internationalisation. This resulted primarily from the European directives we have already mentioned. The UCITS directive of 1985 created a European passport for mutual funds, which meant that once authorised by a national authority they could be distributed all over the European Union (EU). The 1993 directive on investment services, which was transposed in 1996, provided a European passport for these services –and therefore for portfolio management- throughout the EU, based on the mutual recognition of agreements authorised by any member State. In line with the single market programme, capital movements were freed in 1990, which allowed both unrestricted investment abroad and competition to attract foreign investments. The internationalisation of the asset management environment culminated with the introduction of the single European currency, which made it possible to invest on a continental basis: previously many regulatory rules, especially concerning compliance, had prevented institutional investors from investing in a foreign currency and therefore in a foreign country. With the euro, these restrictions were lifted and investing in pan-European portfolios of securities became much easier. In France the internationalisation process was impressive: foreign investors now own more than 40% of the Paris stock exchange, as against 11% in 1987 and 23% in 1993 (Baudru and Kedichi, 1998).

Clearly, the transformation in the environment of French asset management companies has been huge over the period 1984-1999. But more importantly, this industry has displayed the properties we were looking for as regards environmental change: increased competition, innovation and internationalisation. To that extent, it represents a critical case for our research question, about how firms in a given business system adapt to changes in their environment. On the second dimension–institutional dependency–we can see that French asset management is again a critical case.

2.4. Interdependency with the national business system

From Whitley (1999) we noted that four dimensions in particular had a structuring role in business systems: the state, the financial system, the skill development and control system, and trust and authority relations. This means that we can expect these four dimensions to have an impact on adaptation processes, and in particular in constraining firms to retain the national specificities of the system. French asset management appears critical in its interdependency with national institutions, and a very valid choice for our study.

2.4.1. The state

It is no surprise that in France state influence was important, since the country is in many respects the ideal-type of state-centred capitalism. In the case of the asset management business, this interdependency with the state is particularly acute, as both regulation and the pension system illustrate.

Regulation deals with questions of licensing and registration, with reviewing prospectuses and information statements, with monitoring disclosure documents and trade reporting requirements, and with supervising professional duties and obligations. All these institutional mechanisms have a strong impact in restricting the freedom of market players and in constraining their behaviour. In particular, access to the asset management business is restricted to those companies that successfully pass the test of licensing or accreditation. To obtain such access applicants need to have their programme of activities approved by the Stock Exchange Commission, or Commission des Operations de Bourse (COB), which assesses the resources and competencies of the firm and the integrity of its senior executives.[11] The COB is also in charge of controlling misbehaviour and breaches of professional duties: it can suspend or withdraw the agreement, impose sanctions and even ban

[11] We will see later that this procedure was actually instrumental in enforcing organisational change in 1996-1997.

delinquents from offering portfolio management services (decree 96-880, October 8, 1996: art.71). The professional duties of asset managers include a number of guarantees regarding both clients and the business partners of the firm, as well as transparency, quality of service and fair treatment. Moreover, regulation has an impact on the very possibility of investing. Some funds may not be authorised for distribution, because they are considered too risky. There may also be restrictions on the amount of equity, the currencies which may be chosen, the freedom to use derivatives and exotic financial instruments, and the possibility of borrowing money to increase the leverage of the fund. Some particular legal frameworks may also be banned in the structures of the fund.[12] Finally, regulation operates mainly through national channels. Even if there are international rules, and in particular a common framework developed by the European institutions, the principle of the European passport gives pre-eminence to the national level. In the European Union, it is the French regulator who has authority to register and to control all financial players in France. Conversely, firms are very much related to their country of origin, in terms of constraints and regulation.

Interdependency with the state is also striking in the pension system. Pensions represent a non-negligible part of a country's GDP: more than 12% in France (Deroy, 1994). They reflect the degree of advancement of a nation and contribute to social cohesion by providing sufficient income to a growing segment of the population. However, they are very much nationally organised. In particular, there are two generic systems of pension funding, both of which have a substantial impact on the asset management industry. The first is the contributory pension scheme: active workers pay contributions, which go directly to pensioners. This is France's present situation. In this case, the money invested in financial markets is limited: most of the in-flows from workers are transformed directly into pensions. The other generic pension system is radically different: it is based on individual capital planning, where individuals contribute to a pension fund during their working life and are given back their investments' yields when they retire. This has important consequences for asset management: within contributory pension schemes, the amount of money is a lot larger and it is invested over a longer period, with more possibilities of combining various assets over different durations. Any country's asset management industry will therefore reflect some of its core institutional features: the pension system, the importance and function of financial

[12] For instance, the master/feeder fund structure was authorised in the USA in the early 1990s and only authorised in 1997 in France. This structure involves a single master fund or hub, invested in a portfolio of assets and various feeder funds or spokes each with a single investment, representing a share of the master fund. The feeder funds pool their investments so that the master fund is larger and has more possibilities of investments and they can be marketed towards various audiences.

markets, the circulation of money within the economy, and even its savings habits. And France is a very good example in Europe, because of the national dimension of its system: our research question addresses the persistence of *national* patterns. Consequently, France was preferred to Germany, which combines local, regional and national levels of pension and investment structures, through its famous 'Landbank' and 'Sparkasse' (Dore, 2000: 171-181).

State influence is massive in the French asset management business: we mentioned regulation and the pension system, and we could also have discussed direct state involvement through nationalisation, and as a user and provider of asset management services. For that reason we can say that in respect of interdependency with the state, French asset management represents a critical case.

2.4.2. The financial system

But French asset management is also critical in terms of interdependency with the national financial system. This is obvious from its position within financial services and in relation to investment habits.

Asset management is at the very core of the national distinctiveness of business systems. Many authors have used the role of financial markets –and therefore asset management- as a key element in defining various models of capitalism, contrasting the arm-length relationships of Anglo-Saxon countries with the credit-based configurations of Rhenan and Latin countries (Albert, 1991; Cerny, 1993; Franks and Mayer, 1997). We have already underlined the importance of the national pension system: the existence of pension funds will drain a large amount of savings into the stock exchange and it will sustain the investment industry. In France, the lack of pension funds limits the size of the demand for investment services. Furthermore, the importance of banks rather than the stock exchange as financial intermediaries will have an impact on the asset management industry. Credit and securities are competing modes of financing and since they compete for the same clients, a credit-based economy will go with a weak stock exchange and limited possibilities for the asset management industry. This shows how intimately this industry overlaps with its national stock exchange.

Moreover, the state of the asset management industry will reflect the saving habits of the nation's citizens. The level of financial savings constitutes the stock of possible investment of the national economy. The asset management market is therefore dependent upon the savings and reserves of individuals and companies in the national economy, and more specifically on the part of those savings they are willing to invest in the stock exchange. These elements are very much influenced by national habits. The French population shows a degree of risk aversion from equities but buys a lot of life insurance (Artuis, 1997). The Italians and the Japanese are known for their high level of private savings, over 15% of income being saved compared with less than 3% in the United States. Germans traditionally use their local house banks -17 Land banks, over 600 municipal banks and nearly 3000 co-operative banks- where they put their savings into deposits or fixed-interest bonds and forget about them. Consequently, the average German household's holding of equity was less than 20% in 1999 as against 145% in the United States (Dore, 2000: 176). A director in the European Commission, himself French, comments on these societal differences by way of the following anecdote:

> There are many national differences regarding monetary habits. An example: the other day, I was in Frankfurt and I was very surprised to notice that most Germans would pay their hotel bill in cash. In France, you would be suspected of having criminal activities if you did that! But the credit card is well spread in France unlike in Germany, where the Eurocheque is dominant; and Eurocheque scarcely used in France!

All these elements, relating to the stock exchange and to the societal particulars of the national environment, represent clear institutional constraints on the French asset management industry and make it a critical case.

2.4.3. Skill development and control system

In terms of skill development and control system, asset management is also a very valid choice, because it belongs to the financial services area, which in France has clear national peculiarities. This is largely due to state ownership, which was widespread after a series of nationalisations in 1945 and 1981.

In 1984, virtually all leading financial institutions were state-owned; nationalised banks accounted for almost 90% of deposits in the country. As will be explained in more detail in chapter IV, French financial institutions are subject to national collective agreements, which set very precise guidelines in terms of human resource management. Careers are modelled on the public service and take into account seniority and training. The national influence can also be felt in the employment practices and other restrictions on labour market flexibility in the financial sector (White, 1998: 15). State ownership resulted in banks and insurance companies implementing very scrupulously collective agreements and the Auroux laws, voted in 1982 by the socialist government and extending employee involvement. Consequently, the sector portrays very well the typical features of the French model, which is seen by Barsoux and Lawrence (1990), Lane (1989, 1995), and Maurice et al. (1986) as having constraining labour laws, high hierarchy, low flexibility and difficulty in adjusting to change. Within the French economy, this once again makes asset management, as included in financial services (and primarily in the mid-1980s, as we will explain later) a critical example in which the usual characteristics of the French model of industrial relations can be observed. This is to a large extent also the analysis of O'Reilly (1994) in her study of human resources in the banking sector.

2.4.4. Trust and authority relations

Finally, the relationship with the client is of a particular nature in the asset management business, with trust and authority relations particularly embedded in the national business system. The difficulty of measuring performance and the uncertainty about future returns make these relations very important.

First, asset management is a pure service with no results guaranteed. When setting out the responsibility of banks regarding asset management, Bouteiller and Crédot underlined as follows (*La Revue Banque* 484, 1988: 618):

> Unless to pretend that the banker has a gift for divination, it is undeniable that the bank is not liable for any obligation of results, i.e. the one of obtaining for its client an automatic appreciation of assets or revenues of a high percentage. Nevertheless, it has an obligation of means and must give its management all the care and rigour of a salaried mandatory that is an expert in financial matters, which means the one of a well-informed professional.

Financial markets are extremely unpredictable and risky. Despite such Wall Street legends as Michael Steinhardt, Julian Roberson and George Soros, who made fortunes out of their investment skills, few people can claim that they will secure financial gains whatever happens. In fact, the list of investment disasters, from Black Thursday to Black Monday to the Asian crisis, from KreditAnstalt to Barings to LTCM, is almost endless. It means that there is no certainty regarding the quality of the service provided to the client, and also that the evaluation of it is problematic. In this context, it is very difficult to appreciate the value of an asset manager. This is the opinion of many asset management professionals, as expressed by D:

> What a good asset manager is, is very difficult to define. To me, a good manager is someone who is capable to do better than its competitor with exactly the same tools and the same very clearly defined objective. It is not possible to evaluate 90% of fund managers, because you don't know either their objectives ~~either th~~eir tools. Thereafter, it is all about marketing. or

Is 10% a good return? Who knows? It all depends on how well the market performed, on what the risk level was etc. It was probably not good if the market index increased by more than

200% over the same period, but even then it might be a good performance if the objective was, for instance, to limit volatility. It is very hard to measure the performances of a fund manager, for the simple reason that it is necessary to find a proper measurement, a suitable scale that will allow us to say whether a 10% return, taking into account some other ratios measuring the associated risk, is a satisfactory result or not. Hence the necessary use of benchmarks and ratios against which to measure asset managers' performances. Moreover, not only is it difficult to evaluate a good asset manager today, but the choice of an asset manager means trying to choose one who will be good for years to come. The mandate is indeed not about past performance, but about the prospect of future gains, which makes the choice even harder. How do you know that because the fund manager you chose has performed poorly for one year, he or she will continue to do so for the next two years you have contracted with him or her? Because of all these problems of measurement and because of the uncertainties inherent in financial markets, the client really has to trust his or her asset manager.

As the director of an Anglo-Saxon investment consultant in Paris said to us: "It is an act of faith to give your money to someone during thirty years, especially when you need this money to live for thirty years after retirement". Sometimes the issues at stake are very important, regarding as they do one's life, one's earnings and one's means of subsistence. As soon as asset management does not deal only with expert investors, who are capable of discerning the dangers of certain investments, then the sense of responsibility and the ethical sense of asset management professionals become extremely important. Therefore, it is not enough to have access to distribution networks and to have the adequate resources to lead in the asset management business. Another competitive driving force is related to the capacity to build relationships of trust with the client through effective marketing and sales relationships. Hence, marketing is a key to success in the business of managing assets for Europeans and for others who wish to invest in Europe (Walter and Smith, 1989: 152). This also includes promoting a positive image in the client's eyes, and building relationships of trust, as *G.* a finance professional, explains:

> To be a good asset manager, you mustn't be suspected of any collusion; your responsibility must be unquestionable. It is a matter of trust. When you make a deposit in a bank, you make an act of faith: you believe that the bank will give you your money back. But apart from that, the money does not move. When you give an asset management a mandate, you say 'you can play with my money, at the end, I will take back what remains of it.' It is an act of faith, a belief in the professional competence of someone you trust.

Trust is crucial in convincing investors, be they professionals or private, to give their money to an asset management firm. And competition between asset managers depends on their capacity to gain the confidence of potential clients. But trust is very much influenced by social surroundings, and in particular by the institutional arrangements between economic actors. Lane and Bachmann (1996) provide a useful analysis of the concept of trust in a cross-national perspective. They criticise the idea that trust is based on moral and altruistic values, and reconcile Luhman's treatise on trust (1979) and Zucker's New Institutionalist perspective (1986) with Coleman's work on Rational Choice theory (1990) to say that social structures constitute trust. In the latter perspective, institutions provide the framework for rational calculations; in the former, they channel social actions and mutual expectations. Consequently, Lane and Bachmann show that trust needs to be rooted in the existence of stable societal institutions. For our purpose, this means that French clients will tend to put their trust in the institutional practices of their long-term business partners, in other words in French asset managers, rather than venturing into partnership with foreign and not-so-well-known competitors.

In other words, French players are unlikely to be willing to undermine relationships of trust by changing their patterns of behaviour towards clients in order to secure or enhance their market share. They are thus likely to be very much attached to the dominant practices of their business system. This shows once again that French asset management displays some critical interdependency with its national institutions.

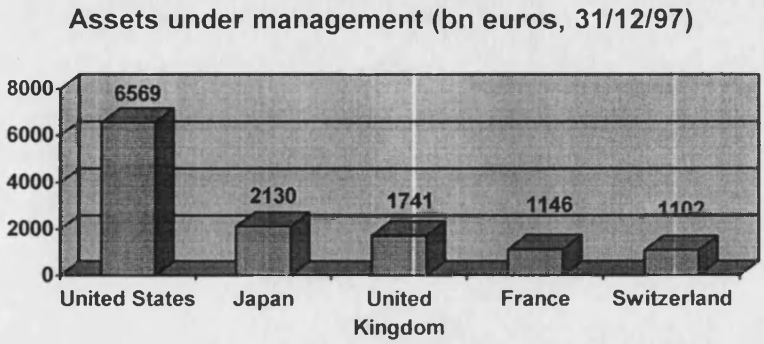
2.5. Conclusion

French asset management represents a critical case for the purpose of our study: it has been confronted to accelerated change and displays strong interdependency with national institutions. Two supplementary elements are worth mentioning regarding our research question. First, since France is famous for its resistance to change (Crozier, 1971, 1979) we would expect French asset management companies not to have departed from the national patterns of organisation and behaviour, which is another reason why it represents a critical case for our research problem. Secondly, and again to support our choice, we should remind that France has been a leader in continental Europe's asset management business over the last 20 years, in particular for mutual funds. In 1987 the French market represented 50% of the assets in the mutual funds of the 15 European states of today,[13] and it remained the leader in 1998, with 23% of the total. With 512bn euros by the end of 1998, France reached second

[13] Interestingly, these funds were channelled through retail banks and not through financial markets intermediaries, which re-inforced the structure of the financial system around credit institutions.

place worldwide in ownerhsip of mutual funds, after the United States, by far the largest player with mutual funds of more than 4,000bn euros (AFG-Asffi, 1999b). If one takes into account private and institutional mandates as well as insurance technical reserves, France still holds fourth position in the world asset management market, and leads continental Europe.

Figure 1: the world largest asset management markets



Source: *AFG-Asffi*, 1999b

Consequently, in selecting French asset management as a critical case we also select the continental European leader, and we may hope to achieve analytical generalisation, defined as a method "in which a previously developed theory is used as a template with which to compare the empirical results of the case study" (Yin, 1994: 32). The reasons for choosing the period 1984-1999 were straightforward. 1984 was the starting date for the deregulation of the French banking system, with the new banking law on 24 January 1984. This corresponds to a decrease in government control (Plihon, 1998: 9). 1984 is therefore a good starting date for the study of organisational adaptation. The end date, 1999, saw the launch of the euro. Firms had to anticipate the arrival of the single European currency and react accordingly, which means potentially interesting adaptation processes. Moreover, with a clear finishing date, it was possible to have precise data and more open commentaries from the actors in the field about what had happened.

All these elements should have convincingly justified the choice of the French asset management industry over the period 1984-1999, as a critical case study for the investigation of organisational adaptation in an integrating Europe. It is now possible to formulate more precisely some theoretical hypotheses about the case.

3. The return of the convergence hypothesis

It appears from close investigation of the asset management industry that the French situation cannot be accounted for without referring to the Anglo-Saxon model of the financial system. The changes that we have described appear to have been heavily influenced by the confrontation with the American and British systems. Moreover, the whole industry is largely dominated by these countries, which have not only world-leading companies but also a business system that gives these companies some societal competitive advantage. Both in terms of efficiency and legitimacy, it appears therefore that the Anglo-Saxons are leading the way, and this has some implications for the theoretical accounts of organisational adaptation: adaptation in the French asset management industry may be nothing but the adoption of the Anglo-Saxon organisation and practices.

3.1. Anglo-Saxon influences in the new French financial environment

We will now show that Anglo-Saxon influence was critical in transforming the French financial system, and therefore the environment of French asset management companies. This influence was particularly noticeable in three areas: the deregulation agenda, the definition of new rules of the game, and the development of a financial market economy. This may well suggest that adaptation to the new French environment did mean becoming more like Anglo-Saxon firms.

3.1.1. The deregulation agenda

Moves towards deregulation in the financial sector started in the United States and were soon followed in the United Kingdom. Liberalisation of interest rates in the United States began in 1972, when the savings banks in Massachusetts were authorised to establish new financial instruments without restrictions on interest rates, and when money-market funds were approved (Canals, 1993: 11). The introduction of the Cash Management Account by Merrill Lynch in 1977 gave investors simultaneous access to financial instruments and a deposit account, and its rapid success increased the pressure towards liberalisation in a context of high inflation. By the beginning of the 1980s, the control of banking activities in the United States had been largely relaxed and competition increased greatly. The United Kingdom followed the lead with an impressive deregulation programme: exchange and capital controls were dismantled in 1979, and the financial landscape was transformed by a new financial act, the Big Bang, in 1986. London capital markets were opened to foreign firms and fixed commissions on stock market transactions were abolished. These fixed commissions had supported a distinction between traders and dealers; this distinction became untenable and jobbers were replaced by market-makers. "Prompted by Britain's fear that it was losing big business to America, Big Bang in turn instilled the fear that the continent would lose the same sort of business to London", commented *The Economist* (26 March 1988, p.65). And indeed France's swift deregulation programme was regarded by many as a reaction to international competitive pressures (Albert, 1991: 270). Furthermore, it is particularly interesting that French and European financial regulation actually borrowed from the American and British example.

3.1.2. New rules inspired by Anglo-Saxon countries

First, the general spirit of the French deregulation was clearly liberal: it corresponded to a retreat of the state and the adoption of a free-market agenda (Walter and Smith, 1989: 109). This is the traditional stance of Anglo-Saxon regulators. Second, the new regulation that was described earlier shows a shift in the nature of the control on asset management companies. Licensing and direct state control were the main instruments of French financial regulation until 1984, when supervision took the form of procedures of agreement associated with prudential ratios and some professional self-regulation. These practices corresponded to the ones traditionally used by British regulators (ECU Institute, 1995: 73). Finally, the design of the European regulation was actually inspired by Anglo-Saxon regulation. For instance, the 1988 Investment Services Directive, covering securities business, closely followed the Financial Services Act, 1986, in the United Kingdom (Gardener & Molyneux, 1990).

The adoption of the single European currency aimed explicitly at creating a financial market that could approach the size and fluidity of the American one. Converting government debt into euros created a \$2 trillion market, in which product innovation, increased competition and financial efficiency could be expected (Merrill Lynch, 1998). In fact, the euro is likely to be beneficial to American companies, which are used to operating in a large and fluid market, such as the one that should emerge from the linking of the eleven European currencies. A survey of 100 European pension funds and managers, published by Goldman Sachs and Watson Wyatt in June 1998, showed that 64% of them were planning to manage their investment portfolios on a sectoral basis, and to consider the euro-zone as a single entity (*Financial Times*, 10 November 1998). The perspective of an integrated European financial market would produce an environment having many characteristics in common with its American counterpart. This is the opinion of a director in a leading American investment bank:

> The new model with Euro might be appropriate for Europe. But if it is based on free market, it is likely to become similar to the US. The outcome should be

> similar because the single European market has the same values. Financial models are not political, but models are driven by politics. The US model is innovative and responsive; this is more interesting because it is producing good results for the financial world as well as for society. The more innovative your financial market, the more efficient your economy.

But the Anglo-Saxon influence was present not only in the concept of the deregulation programme in France and in Europe and in the definition of the rules of the game; it also had some important consequences for the structures of the financial market. This produced an even greater change in the environment of French asset management companies.

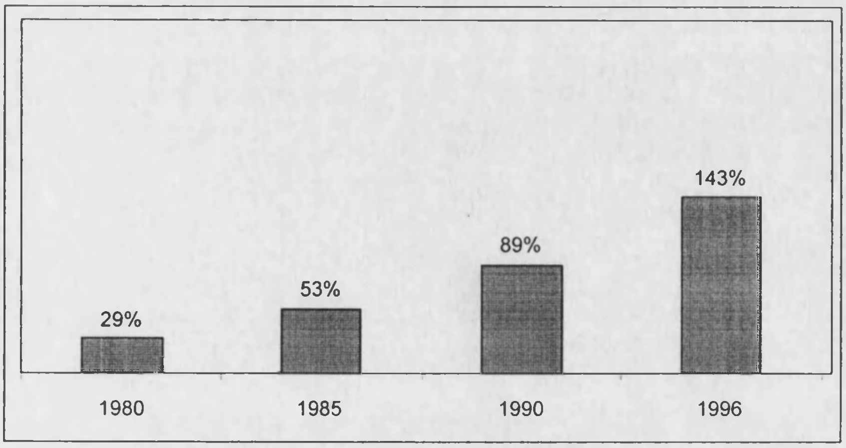
3.1.3. A new financial system

We underlined earlier a major feature of American and British types of capitalism: financial structures in which capital markets and not banks play the central role. The path followed by France seems to have brought this country closer to such a type.

Rybczynski (1997) has suggested that ~~the~~ financial systems evolve in three phases. First is the bank-oriented phase, in which banks are responsible for almost every financial service and there are no other financial markets of any significance. Second is the market-oriented phase, in which financial markets grow and become more important for providing funds and for investment purposes. Third is the securitised phase, in which the share of banks in collecting savings and allocating them declines, and non-financial agents go directly to financial markets to find funds and to invest savings. Evolution towards this later stage tends to result from changes in the regulatory framework, from technological advances and from an increase in general wealth.

In line with this argument, France seems to have adopted more Anglo-Saxon arrangements, with a dominant role of the financial markets. Plihon (1998) shows that in terms of assets, French major banks held 84.2% of credits in 1980 but only 50.9% in 1996. At the same time, the share of their assets invested in securities rose from 4.8% in 1980 to 34.6% in 1996. Moreover, their share of financial intermediary business fell from more than 70% in 1980 to 20% in 1997 (CNCT, 1998). Consequently, the weight of financial securities increased greatly in France, as illustrated in the following diagram, which shows the value of financial securities (stocks, bonds and negotiable debt) as a percentage of France's GDP:

Figure 2: stock of financial securities as a percentage of France's GDP



Source: Plihon, 1998: 63

This means that the French financial environment has become centred on the stock exchange and has hence become more similar to the position in Anglo-Saxon countries. This central role of the financial markets is even reflected in the internal structure of French shareholding. France was characterised by a system of cross-shareholdings, especially after 1986 and the withdrawal of state influence from control of economic activities. But recent analyses show that the country is moving away from interlocking and concentrated ownership structures and moving "towards less complex, market-oriented structures, closer to the US and British models" (Morin, 2000: 39). This change is illustrated by the attitude of the AXA-UAP group, which is managing its huge stock of French equities in line with profitability targets and not to foster strategic control. For example, while it could have used its cross-shareholdings or its own assets of 3,500 billion francs to raise 60 billion francs and block the 1998 take-over of the French insurer AGF by its rival Allianz, AXA-UAP did not intervene and let a foreign player break the cross-shareholding network. The change in French capitalism is also illustrated in the high percentage of foreign ownership in France, which represented 35% of the capitalisation of the Paris stock market in 1997, according to a Bank of France study of 60 per cent of listed companies. Furthermore, the shift towards an Anglo-Saxon style economy, centred on the financial markets, is confirmed in the profile of supervisory control.

In summary, it appears that French asset management companies have come to operate in an environment that is becoming more similar to that of their Anglo-Saxon competitors. This can be observed from the regulation and the shape and the structures of the financial markets. From our evolutionary perspective on adaptation and even from an institutional economics point of view, this may suggest that French firms would adapt by becoming more similar to Anglo-Saxon ones, especially since Britain and America dominate the asset management business.

3.2. Competitive conditions and legitimacy: Anglo-Saxon pre-eminence

We now analyse the case study further in order to show the elements which may be driving organisational adaptation, and how this may occur. This means, in the first place, looking at competitive conditions in the industry. We will notice that the asset management industry is marked by the clear supremacy of the Anglo-Saxon players. In other words, adaptation through the definition of the best practices in the business, or through the dominant social dogma, are highly likely to go in only one direction: the adoption of Anglo-Saxon practices.

3.2.1. Competing in the asset management industry: key success factors

The new market environment created by the single European market makes it necessary for companies in the asset management industry to secure quality and effectiveness (Walter and Smith, 1989: 151). When asked about the key success factors in their industry, investment professionals insist on a number of issues, which reveal the competitive dynamics of the sector. In order to produce superior performance, two elements are critical: people and technology. But this is not enough: asset management also requires some more general strategic thinking regarding size and distribution.

As *D.*, fund manager in a leading global investment bank, explains, the industry is structured around two general problems, collecting the clients' money and then managing it in the best possible way:

> When banks look at asset management, they first look at how they can gather funds, and then how they actually manage them. I think the first is a bigger challenge than the second is. There is a lot of competition; customers are not always easy to access.

The asset management firm does not have many sources of revenue. It is paid almost entirely by a management fee, typically between 0.5% and 2% of assets managed per year (Downes & Goodman, 1998). Since management fees are expressed as a percentage, then the higher the volume of assets under management, the higher the revenue. In other words, to make profits in this industry it is not enough to excel in fund management: it is also very important to have as many customers as possible. Market analysts therefore regard distribution as a key element (Ernst & Young, 1999). It is an entry barrier, and a pre-condition to being able to compete in the asset management business, which is why foreign competitors have had such difficulties in entering the market, as will be outlined in a subsequent chapter. Distribution networks, and in particular those of the retail banks, represent the largest market share. The first condition for success in the industry is to have access to these networks, in order to reach as many customers as possible.

Another important factor is the capacity to limit costs, in order to generate profits. This is the focus, for instance, of the PricewaterhouseCoopers 1998 survey of the UK investment management business, which tried to identify the conditions improving the profit margins of the industry. The main findings are that size is a key success factor:

> We are now seeing the largest businesses establishing something of a lead in profit terms as medium-sized and smaller scale operations come under increasing pressure. (PricewaterhouseCoopers, 1998: 1)

This conclusion was reached by many investment professionals, who recognised that only two strategies are possible: either going global and reaching a critical mass, or being specialised. Nick Lopardo, chief executive of State Street Global Advisors, explains that size is necessary to reach economies of scale and scope and to respond to the challenge of the global economy, which requires following the financial markets twenty-four hours a day (*Investment and Pensions Europe*, February 1998: 18). Didier Miqueu, chief executive of Sinopia, a European niche player, reckons targeting small market niches is also a good strategy (*Investment and Pensions Europe*, September 1999: 43). On the other hand, it is not easy to control costs, because of the rarity and expensiveness of the key resources in the asset management business: people and technology. This quote from *P.*, the chief executive of a leading British asset manager, is particularly revealing:

> Question: Which are the key factors of success in the asset management business?
>
> Answer: It is a people business. So at the end of the day you must employ, that is attract and then retain key professionals in all the disciplines of fund management. Not only fund managers.[..] That means individuals who can interface with clients, service the clients, those who can process the IT, technology environment and the human resource management to properly run the business.

To succeed in the asset management industry, it is therefore critical to have the best professionals available. The capacity to hire such individuals and to retain them, which means the human resource management, is then very important. Obviously, this is true for any business, but in the case of asset management it is especially critical because only a few fund managers manage to beat the market, an ability which makes them uniquely valuable to the company. The conditions of employment, and in particular pay, are therefore very important in enabling companies to hire such individuals. That said, technology and innovation also appear to be key factors in success.

Banking has traditionally made great use of technology, but the information technology revolution is proving an incredible driver towards of (Canals, 1993: 37). Investment professionals emphasise the importance of technology: computers, databases, pricing software, and performance analysis modules were cited as important tools in improving the quality of asset management offered to clients. It is not surprising, then, to notice that Fidelity, the world's leading asset management firm, had in 1997 an Information Technology budget of more than $500 Million. But this also has implications for the way firms compete against each other, and try to design new types of funds (*International Tax Review*, May 2000). In fact, the evolution of the financial system can be viewed as an innovation spiral, where companies compete not only in a static but also in a dynamic sense, in their capacity to innovate and to develop new products (Merton and Bodie, 1995: 20). The capacity of firms to react and to adjust quickly therefore appears critical in this industry. In summary, we have listed a series of competitive drivers in the asset management business: distribution, size, people and technology. However, given these competitive conditions, it appears that Anglo-Saxon players are particularly dominant.

3.2.2. Anglo-Saxon leadership

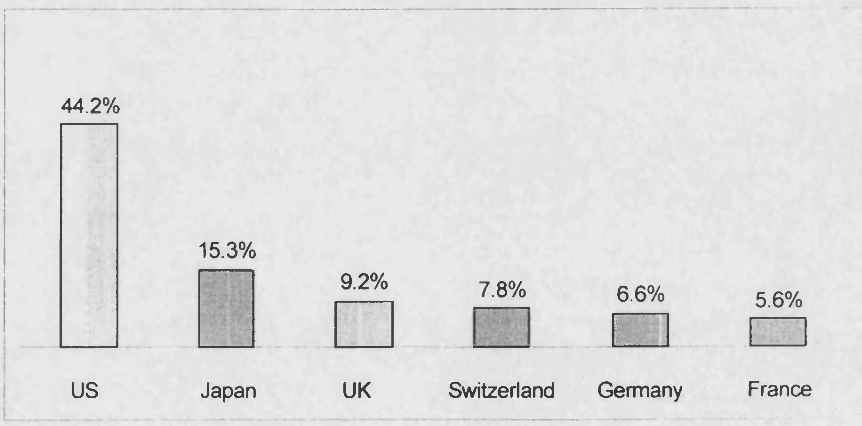
It is important to notice that American and to a lesser extent British players dominate the world of asset management. Not only do these countries have the largest market and the world's market-leading companies, but they are also the leading professionals in the field.

The asset management business has strong links to stock exchanges. In fact, asset management is barely imaginable without a stock exchange: the whole business is about buying and selling securities to pool them together in portfolios in order to achieve certain objectives of return and risk. There is a strong interdependency between the national stock exchange and the national asset management industry. This is true in terms of factors of production: finance professionals, financial products and infrastructures are common to the two. A small and non-competitive stock exchange will therefore limit the possibilities for development of the asset management industry. It is also the case that asset managers cannot work without a number of intermediaries: brokers, analysts, dealers and investment bankers, who issue new securities. The performance of the dealers depends on the performance of the others. This corresponds to what Porter described as the national diamond, the determinants of national advantage (1990: 72). Nations succeed in clusters of industries connected through vertical and horizontal relationships (Porter, 1990: 73). Consequently, nations are more likely to succeed in the asset management business if they can count on a powerful stock exchange and on a wide arrays of investment bankers, analysts, brokers and so on. Reciprocally, because the diamond is a mutually reinforcing system, a strong asset management industry will support leadership in other related financial industries. Is it therefore so surprising to notice that the world leaders are to be found in the Anglo-Saxon countries, where the largest financial markets are located? When questioning investment professionals in London, the perception of an Anglo-Saxon leadership is clearly recognised, and it is related to the geographical location of a strong stock exchange:

> Interviewer: Talking about investment management would you say that such an expertise is more developed in America and Britain?
> D: Yes. There are different traditions, also because of different pension systems. Asset Management is located in financial centres (New York, Tokyo and London) because they have the competencies and skills etc…
>
> Interviewer: Do you think that asset management is more developed in Anglo-Saxon countries?
> P: I think… what you find, in general, is a larger and more efficient market. The state of fund management is more developed in more developed markets. Where you have a less efficient market it is relatively easier to extract value. Technology, terminus of flows, transparency make markets like the United States, the United Kingdom, Australia very challenging markets. They have an equity culture. There, you have a regime where information is available. Where you have less well-defined equity culture, the efficiency is not there as much. When you have that kind of transparency and efficiency, you become more disciplined in the way to consistently extract value out of the market. So, in that sense the Anglo-Saxon markets are probably ahead of the pack.

Anglo-Saxon leadership benefits from a huge market, because of pension funds, which collect a large part of these countries' GDP and use asset managers to invest it. As a result, the American market represents almost 40% of the world asset management market. Not surprisingly, this is translated into the domination of the Anglo-Saxon asset managers, who manage the largest volumes in the world. According to *Pensions & Investments/Watson Wyatt World 500*, asset managers based in the US had 44.2% of the total world market at the end of 1997, as shown in the following chart:

Figure 3: Asset management firms' market shares in 1997 by country of origin



Source: Pensions & Investments/Watson Wyatt Worldwide 500

Anglo-Saxon leadership is therefore not only leadership amongst individual companies operating in the asset management market, but the societal leadership of the Anglo-Saxon system in this area. Not only are American and British companies the leading asset managers, but the whole professional scene is dominated by Anglo-Saxon players. The most established lawyers, the leading investment consultants (Frank Russell, Watson Wyatt, Mercer), the prominent rating agencies (Standard & Poor's, Moodies), the leading accounting and audit firms (the Big Five) are all American or British. They reinforce the leadership of the Anglo-Saxon business system, by providing resources and support to the asset management companies they work with. They contribute to establishing and improving common practices, and thus sustain an institutional competitive advantage in the field. This corresponds to what Soskice (1992) defined as the National Frameworks of Incentives and Constraints. The Anglo-Saxon business system, through its finance, labour market, product market rules and inter-company relations helps companies operating in the asset management business. It is widely accepted that Anglo-Saxon countries have a more responsive and flexible labour market than continental European countries, and in particular France (Lane, 1989; O'Reilly, 1994). More generally, in a sector such as asset management, where human resource management and innovation are critical, it is likely that institutions of the Anglo-Saxon type will be beneficial (Casper, Lehrer, Soskice, 1999). It is not surprising, therefore, that comparative studies of national institutional competitiveness conclude that countries like the United States and the United Kingdom provide a competitive advantage for money management (Porter, 1990: 255; Vitols et al., 1997: 22). All these arguments have a strong implication: competitiveness in the asset management business goes in tandem with the Anglo-Saxon business model. We will show later how this suggestion was both recognised and debated by the actors in the field, and how the Anglo-Saxon model could eventually prevail.

Not quite clear how significant here?

In conclusion, our review of Anglo-Saxon leadership in the asset management industry leaves us with the idea that if a company wants to be competitive it should look like an Anglo-Saxon one. Two generic drivers were identified for adaptation: pressures towards higher efficiency (economic or evolutionary), and pressures towards legitimacy. In both cases adaptation is expected to lead to business practices that look like those of British and American companies. Even if this is a rather odd conclusion for the purpose of the research, it appears that in the case study adaptation may well be nothing but adopting the practices and routines of Anglo-Saxon players. Such a conclusion complicates slightly the perspective of the research, because it makes it necessary to look at adaptation processes by paying attention to the Anglo-Saxon

is that enough

model. In other words, while our study is longitudinal and studies the French case, it has to be analysed in relation to the American and British patterns of organisation. The problem is however that we chose French asset management precisely for its critical interpendency with the national business system. The case study mixes therefore the problem of adaptation with the problem of system change: (x) is it possible to adopt Anglo-Saxon practices in the French asset management industry, thereby contradicting the principle of interdependency with the national business system? This leads us to formulate competing hypotheses about the case study: different theoretical perspectives will predict that the French industry would go in different directions.

Precedents in other industries? countries?

4. Four competing hypotheses

Now that the case study has been assessed in more depth, it is possible to go back to the theories about organisational adaptation to try to predict what might have been expected from the adaptation of French asset management companies to their new environment. As we will see, contradictory arguments can be advanced about the case study, which leaves a puzzle about what ~~actually~~ happened in reality. Four hypotheses can be advanced, which put to the test the theoretical proposition that business systems will preserve their originality.

4.1. Organisational adaptation: hypothesis 1

There are many elements in the case study that favours a first hypothesis, which is a version of the convergence theory. The hypothesis is that French asset management companies will depart from reproducing the routines corresponding to the original French business system and will adopt the routines of the companies operating in Anglo-Saxon business systems. Several theoretical justifications can be advanced.

The analysis thus far has shown clearly that the asset management business is marked by the dominance of Anglo-Saxon players, and by the Anglo-Saxon financial system model more generally. We may therefore expect that the world leaders in the asset management business will be the most efficient firms. The organisation model of American and British companies would therefore represent the best way to organise asset management. (x) In a new French environment where competition is free, we would expect market forces to put pressure on firms to improve their structures and organisation. Ultimately, the argument is that adaptation, driven by economic efficiency, would lead French firms to eliminate their previous practices that were not optimal and to adopt those of their Anglo-Saxon counterparts. Other theoretical arguments can also be advanced that support the idea of French firms adopting the practices

(x) even in the absence of the corresponding national business system?

of their American and British competitors. Recalling the argument of Rybczynski (1997) that Anglo-Saxon countries are at the forefront of historical trends in the development of financial markets, this first hypothesis would also be justified by evolutionary approaches. French companies would only catch up with those companies that lead the scene and master the newest technology and knowledge. A further justification would come from the neo-institutional argument that the most legitimate form of organisation will be imposed upon companies. Because they represent the world leaders and because their supremacy ranges from asset management to pension funds to consultants and professionals, American and British players would have the legitimacy and the political power to assert their organisational structures. French companies would therefore comply with the dominant dogma, which in the asset management business happens to be the Anglo-Saxon one. We would therefore expect firms in the French asset management organisational field to integrate and to imitate the leading practices from the Anglo-Saxon business system. Hence the formulation of the first hypothesis for the case study:

⇨ *H1: French asset management companies will adopt a large number of routines from the Anglo-Saxon business system and transform their patterns of economic organisation accordingly*

4.2. Organisational adaptation: hypotheses 2 and 3

In the preceding hypothesis, the institutional constraints were not regarded as very problematic: the focus was rather on the intrinsic superiority of Anglo-Saxon practices and their subsequent adoption by French players. However, we have underlined that there were several aspects in the case study that made this perspective more complex. For instance, the distribution and client relationships were shown to be influenced by historical and institutional practices. If foreign companies cannot have effective access to the French market, because they do not have a suitable distribution network, it is unlikely that market competition will operate properly. French players will not compete against their Anglo-Saxon counterparts so much as against their French counterparts. In this case, it is not so obvious that they will be prone to change their practices. Moreover, the properties of the asset management business make it vital to establish relationships of trust. Change and the adoption of new business practices would undermine the system of trust, and this would be undesirable for companies. Finally, we have shown that there were still some national institutional peculiarities, in terms of regulation, financial habits and more generally in terms of the economic organisation of the country. All these elements represent serious constraints that may prevent adaptation proceeding in the direction of the Anglo-Saxon system. The case study is therefore testing the capacity of the French business system to evolve.

French asset management companies are faced with a changing environment, one which is becoming more similar to that in Anglo-Saxon countries. But at the same time, the dominant institutions of the French business system have remained in place and continue to have a national dimension. Given these elements in terms of regulation and conduct of business, and given the nature of asset management, one would therefore expect the national dimension of the business system to continue to dominate. Because of system interdependency, one could advance the hypothesis that French asset management companies will not change radically: they are already adapted to their environment, and even if the French financial system may have different rules, the components of the system have not changed and remain inter-dependent. Given a new environment, asset management companies may change some of their practices, but their distinctive patterns of economic organisation will remain, and they will continue to reproduce the structures of the French business system. One would even expect societal effects (Maurice and Sellier, 1986) to appear, showing the specifically national response to transformations in the environment. Hence the second hypothesis:

⇨ *H2: French asset management companies will continue to reproduce the patterns of the French business system; change will only reinforce their specificities and produce societal effects*

Another hypothesis, closely linked to H2, would be that of an intermediary or hybrid stage. French asset management companies would adapt to the changes in their environment by adopting some American or British patterns, but because of institutional constraints this would lead to something rather different from the Anglo-Saxon business system. The theoretical justification for this would be the fact that the French financial system is only half-way towards the Anglo-Saxon model, and therefore a successful adaptation would also be half-way in this direction. Firms would adopt hybrid patterns of organisation, with for instance their distribution and customer relations still carried out in the French way, but other areas, such as portfolio-building, taking advantage of global investment and operating as in American or British companies. This hypothesis is probably the most inconclusive one, but given the situation disclosed by the case study, it may be a possible outcome. Hence the third hypothesis:

⇨ *H3: French asset management companies will develop original patterns of organisation, that will correspond to an hybrid model, between the original French model and the Anglo-Saxon one*

4.3. Organisational adaptation: hypothesis 4

But given the recognition that national environment is relevant, there may be another possible way for firms to adapt to their environment. This relates to the theory of societal contingency, which is once again an intermediary outcome between H1 and H2, but this time in relation to geographical stratification.

An important outcome in European integration is the freedom of movement, which makes it possible not only to distribute investment products and services across borders, but also to locate asset management companies anywhere in the EU. We underlined that Anglo-Saxon pre-eminence in the asset management field was a matter not only of firms but also of a whole business system. In order to compete not only in France, but internationally, it is therefore possible that firms might try to seize the opportunities offered by such a business system. As explained by Sorge (1991):

> Performance in an industry or sector is due to a correspondence between an industry, sector or company profile and the societal profile, rather than correspondence between a supposedly ideal profile and the societal profile.

Asset management companies will monitor reflexively the new requirements of the new European environment. In this perspective, they will admit the relevance of national dimensions. More precisely, they will recognise the intrinsic superiority of Anglo-Saxon societal characteristics for the purpose of asset management services. As a result, they will try to place their activities in a business system displaying Anglo-Saxon patterns of organisation. This is in particular the case of London, as this director of a leading investment bank explains:

> N: London has the infrastructure and the people and so-on to be the pre-eminent financial centre. So, if you chose a place to concentrate your activities, of course it would be London, because it is the best place to be in business.

Hence the fourth hypothesis for the case study, which would take into account both institutional constraints and competition drivers:

⇨ *H4: French asset management companies will exploit the competitive contingency related to the patterns of Anglo-Saxon business systems, by leaving France and moving their capacities to such systems (for instance: London)*

As a result of this investigation of the French asset management industry we have therefore come up with four competing hypotheses, or four possible outcomes of the adaptation processes in this industry. Starting from some theoretical understanding of organisational adaptation, the hypotheses take into account the specific nature of this business, the specific nature of the changes in the French environment and the specific constraints of its surrounding institutions. The next chapters will attempt to evaluate which of the four options corresponds best to reality. As a starting point, the following chapter builds a theoretical framework to address the empirical evidence, and starts to analyse the case in more depth by showing how the organisational field is internally structured.

CHAPTER III: ANALYTICAL TOOLS

In the previous chapters, we elaborated on the research problem, namely the investigation of how firms in a given business system adapt to changes in their environment, and on the methodological options for tackling it. This led to the choice of a case study, the French asset management industry over the period 1984-1999, and to a first evaluation of the case, from a theoretical and *a priori* perspective. Four competing hypotheses were formulated which were grounded on generic theories of economic change and adaptation, and which represent four possible outcomes of the organisational adaptation processes. In this chapter we develop a theoretical framework to provide the analytical tools necessary to conceptualise and analyse organisational adaptation within the national business system perspective. It is necessary to be equipped with theoretical tools and concepts before approaching the data, so that the evidence can be framed properly. Our ambition, and a possible contribution of the present thesis, was therefore to develop a coherent grammar of relations between clearly identified variables and concepts (Bourdieu and Wacquant, 1992: 204), all the more so as we planned to interpret the empirical material accordingly, following the principle of "grounded theory" (Glaser and Strauss, 1967).

However, such a coherent grammar of relations was not easy to achieve. The main problem was to accommodate theories about organisational adaptation within the business system perspective, which is the starting point of the research. We were faced with two difficulties. First, we had to relate a static framework (business system) to a dynamic process (adaptation). Then, we had to relate structure and agency, because organisation theory presented conflicting views about the drivers and modalities of adaptation. The solution we provide in the following pages relates to a definition of the firm along three layers (*entrepreneurial synthesis*, *conception of control* and *organisational routines*) which are in essence dynamic and analytically relate the firm to its environment. Together, the three layers consistently combine and cover the main elements of the firm's organisational life. They link the internal properties of the firm to the patterns of the business system. Separately, they highlight different dimensions of the firm and make it possible to use theories and concepts, which would not otherwise relate to each other. After introducing the problems we had to solve in designing the theoretical framework, we will outline our multi-layered definition of the firm and apply it to the case study.

1. Designing the theoretical framework: problems to solve

Our objective in this chapter is to provide conceptual tools to investigate organisational adaptation within the business system perspective. Unfortunately, we have to face two problems. First we need to accommodate a framework that is mainly static (business system) and dynamic processes (adaptation). Secondly, the organisational theories we need to use to deal with adaptation are divided between those focusing on agency and those focusing on structure. We will show that Giddens' structuration theory helped us solve these difficulties.

1.1. It is necessary to complement the business system framework

We started the thesis from the perspective that economic action has to be understood within its context, and we recognised in the business system a useful framework to categorise national economies. The argument developed by the business system approach, and in particular by Whitley (1991, 1999), is the idea of interdependency between institutions on the one hand and patterns of economic organisation and behaviour on the other. This is best expressed in the format of a matrix, in which certain institutional features are correlated with certain characteristics of firms (Whitley, 1999: 79). In other words, once the institutional features of the system have been identified, we will be able to characterise the patterns of organisation and behaviours of the firms in the business system. The approach is particularly useful because it gives a list of variables, which are the result of empirical investigations and can be used to categorise national economies. They represent a useful tool to portray the patterns of organisation and behaviours of firms in a given context. There are however some difficulties if we want to apply the framework while focusing on organisational adaptation processes.

The problems with Whitley's framework are that it operates at a high level of abstraction and deals mainly with ideal-types (1999: 60, 75, 84), and that it explicitly aims at comparative studies. These two elements result in a static and descriptive framework, which gives a good comparative picture of national economies but does not account for dynamic processes. In other words, the scheme works well for categorising national systems but not for showing how they change, which is the aim of our research. Consequently, to tackle organisational adaptation, we have to look for other theories to supplement the business-system framework. Looking at organisation theory, it appears that many different organisation theories have tackled adaptation, even though most of the time it was not their primary focus of analysis. To build our theoretical framework we must select properly the various concepts and theories that fit with the business-system perspective. However, this is not an easy task, given the width of the organisation literature: attempting any critical review would be like opening Pandora's box. The strategy we adopted was to identify potential candidates and to present the key elements in these theories that are useful to our argument. We limited our review to the perspectives that pay attention to the social context of economic action, by recognising some limitations to the perfect rationality of actors. We found they all share some underlying assumptions about the cognitive capacities of economic agents, as being limited and constructed in relation to a social context. In the following table, theories A1 and A2 follow Simon (1960) on the limited rationality of managers. A3 and A4 largely follow the position of Weick (1979) that actors make sense and enact their environment. S3 is largely linked to Berger and Luckmann's concept that reality is socially constructed, whereas authors within S1 have drawn on all three of the approaches just outlined. Even so there are differences in perspective which correspond to differences in the focus of investigation. This in turn leads to the use of different concepts and processes to analyse adaptation. From this rapid overview of the literature it is clear that the theories are consistent on these three aspects (perspective, focus and processes), although they differ one from another. We know now that we ought to use organisation theories to complement the business-system framework, if we want to build the theoretical tools we need for the empirical investigation. The theories in the table provide a series of theoretical tools that we could potentially use. The problem now is to know which tools to select and how to use them. And here, another difficulty surfaces: there is a strong dichotomy between those theories that consider adaptation as a managerial agency (A1-A4), and those that consider it a property of the firm's environment (S1-S3).

Table 2: Review of the organisational literature in its treatment of adaptation

Perspective	Treatment of adaptation	Focus of investigation	Processes
A1 Transaction costs economics Williamson (1975, 1985, 1986)	Adaptation is a managerial agency: a rational optimisation under institutional constraints	- institutional setting - transaction costs - governance structure	- analysis of the environment - optimisation of the transaction costs
A2 Contingency theory Burns and Stalker (1961), Donaldson (1987), Galbraith (1973), Lawrence and Lorsch (1967)	Adaptation is a managerial agency: a problem-solving ability	- organisational structure - technology	- analysis of the environment - diagnosis and design of the ideal structure - implementation
A3 Resource-dependence Pfeffer and Salancik (1978)	Adaptation is a managerial agency: managers can adapt their environment to the organisation	- resources - coalitions both internal and external to the firm	- enactment of the environment - political struggle and replacement of the ruling coalition
A4 Strategic choice Chandler (1962, 1977), Child (1972), Miles and Snow (1978)	Adaptation is a managerial agency: a political and problem-solving ability	- competitive environment - formal structure - coalitions	- enactment of the environment - political struggle between rival coalitions - strategic decisions by the ruling coalition
S1 Organisational learning Argyris (1985, 1999), Argyris and Schön (1978), Cyert and March (1963), Levinthal (1998), Nelson and Winter (1982)	Adaptation is the result of appropriate learning. Learning does not always lead to adaptation. It may be intentional and be driven by managers, or it may be unintentional and driven by stochastic events and random improvements.	Organisational routines (programs and memory that enable the firm to perform tasks)	- Experimentation through stimulus-reaction learning - Searching and noticing of new routines - Diffusion from the environment
S2 Population ecology Aldrich (1979), Hannan and Freeman (1977, 1989),	Adaptation is the result of a selection by the environment: adapted organisations will survive, while the others perish	Organisational forms: - goals - boundaries - activities	- Variation - Selection - Retention
S3 New Institutionalism Berger and Luckmann (1967), Meyer and Rowan (1979), Powell and DiMaggio (1983, 1991), Scott (1995)	Adaptation is imposed by the institutional environment, through pressures towards the legitimate organisational forms	- Institutions, as expressed in rules, norms and cognitive frameworks - institutionalised myths and rationalities	- Institutionalisation of business recipes in the environment - Isomorphism: coercive, mimetic and normative

1.2. Combining agency and structure

that

We need to select those theories may be best combined with the business-system perspective, and we are confronted with the recurrent problem in social sciences of agency and structure. It is not easy to decide which theory may suit best, especially because we insisted that in this research we wanted to avoid both the over-socialised and the under-socialised view of the individual. Whitley (2000), even while underlining the constraining role of institutions, recognises the possibility of change and innovation. In other words, to fit into the perspective of the present thesis, and to relate the business system perspective with the theoretical accounts of organisational adaptation, it is necessary to redefine and integrate both the possibilities of agencies and the constraining properties of the environment. Only in this way is it possible to insert such dynamic elements as adaptation and change into a configuration interested in interdependency –such as the business system approach.

The attempt to achieve an integrative framework of organisational adaptation is not only desirable; it is indeed possible, from a closer examination of the underlying assumptions that guided the previous presentation of the literature. Such an attempt, moreover, is not an isolated one: a number of social scientists have tried to overcome the division between actors and structure. Conscious of the limitations of one single approach, a number of theorists have come to crossing over boundaries and to combining theoretical perspectives. For instance, Institutionalists recognised the inability of their theories to explain fully organisational behaviour and realised the relevance of efficiency perspectives (Scott, 1987). Organisational ecology and institutional theory witness increasing convergence (Baum and Oliver, 1991; Carroll and Hannan, 1989; Dacin, 1997), in particular because organisational ecologists have realised that institutional pressures supplement competitive or market ones. Other analysts combined ecology perspectives with learning models (Ingram and Baum, 1997) or transaction cost economics (Silverman et al., 1997). On the other hand, organisational learning has attracted the attention of institutional theorists, since it offers an alternative to rationalistic models and to the aggregate models of population ecology (Aldrich, 1999: 60). Learning is also connecting individual agency and environmental influence through its cognitive perspective: the notion of the learning organisation has become a management classic, although it recognises the limits of managerial agency. Other attempts to bridge perspectives should also include authors such as Fligstein (1990), who draws on the politics of resource dependence theory to complement Institutionalism. The possibility of bridging perspectives and of crossing boundaries is more than a war of influence to establish pre-eminence over competing theories; it appears to be a real option for the analysis of organisational adaptation.[14] And the paradigm provided by Anthony Giddens offers such an opportunity.[15]

In a book devoted to the critical appreciation of his structuration theory, Giddens affirms (Bryant and Jary, 1990) that his concern is to develop an ontological framework for the study of human social activities, where ontology means a conceptual investigation of the nature of human action, of social institutions, and of the interrelations between action and institutions (Giddens 1990: 201). Giddens' structuration theory wishes to escape from the dualism associated with objectivism and subjectivism (1979: 49). Using the notion of practical consciousness, he argues that actors can reflect upon their intentions (if not their unconscious motivations) and routinely build a theoretical understanding of their activity (1984: 5). Because of the duality of structure, as a constraint and a possibility, agents are not determined by the social system but participate in its structuration: they are at the same time products and producers of structure (1984: 25). In adopting these insights we place the research in a new paradigm, where agency and structure are not opposed but combined together in a theory of practice. Doing this, we follow other authors who use such a new paradigm for their investigation of organisational life. For instance, structuration theory gained considerable influence within management studies (Pettigrew, 1985; Whittington, 1989, 1992). It was used because of its concept of agency, that recognises both the influence of the environment and the possibility of initiative and choice. This allows for a re-conception of institutional environments that provides a way out of the Institutionalists' self-confessed tendency to determinism (DiMaggio, 1988), since it opens space for management agency in social structure. Maurice and the societal effect school adopted the same perspective, but are more influenced by Bourdieu (Maurice et al., 1986: 233). In summary, using Giddens' theory of practice, we have solved part of our problems with the literature dealing with adaptation; we can use an integrative perspective that pays attention both to the environment and to the possibility of agency. It can be translated into an analytical framework, thanks to an enhanced definition of the firm, as shown in the following paragraph.

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[14] Durand (2001) sustains a similar argument about selection .

[15] We could alternatively have used the work of Pierre Bourdieu who also attempted to combine structure and agency, but we preferred Giddens for the purpose of this research because his writings consider systems, while Bourdieu explicitly rejects this concept (Bourdieu and Wacquant, 1992: 97, 104).

2. A multi-layered definition of the firm

The conditions of possibility for our theoretical framework concerned the need to supplement the business system perspective with dynamic processes and to combine agency with structure. We have shown that we could satisfy these requirements by using structuration theory. We can now proceed with the design of the framework, and make good use of the organisation theories we identified earlier. Instead of focusing on just one theory or building a new one from scratch, we propose a more modest option which represents a middle way: it integrates several theories, by recognising the possibility of aggregating adaptation processes in a multi-layered definition of the firm. This means developing a generic classification, where theoretical propositions can fit and where they can be tested. It means using theories as tools and not as prescriptions to describe reality (Glaser and Strauss, 1967).

The theories we mentioned above all address organisational life, despite having different focuses of analysis. By re-configuring their object, it is possible to make them fit together. Such an attempt may sound arbitrary and even inconsistent, and it could be argued that by combining perspectives that are sometimes in opposition to each other, the true substance of each individual theory would be lost. There are however two justifications for combining these perspectives. First of all, the idea here is not to merge theories, but rather to use some of the concepts developed by one theory to tackle one particular dimension of organisational life, and some other concepts, developed by another theory, to analyse another dimension of it. Moreover, this happens within a new paradigm, taken from structuration theory, which allows us to overcome dialectic oppositions. The claim is twofold: first that no one theory has addressed properly all organisational dimensions, and second that each theory we use has convincingly analysed at least one organisational dimension. The claim is therefore that by recognising the limits of the theories and their link to particular empirical problems, it is possible to develop a better understanding of these theories (Hall, 1999: 292). The second justification is that the idea of a stratified model, combining theoretical perspectives, has already been developed by several influential scholars.
As Richard Scott explains:

> Noting the selectivity of the perspectives, a number of theorists have attempted to develop more encompassing formulations, combining selected portions of the earlier traditions. (1998: 102)

Scott himself suggests a layered model with three levels: social psychological, structural and ecological (1998: 107); he claims that because of their historical origin existing frameworks are applicable to differing levels of analysis (119). The same idea is developed here, in order to build a theoretical framework for the analysis of organisational adaptation processes.

We can start from a very basic and general understanding of what a firm is and what it does, references and then try to categorise these elements in relation to each other [illegible]'s environment. As explained by Hall (1999: 30): not in references

> An organization is a collectivity with a relatively identifiable boundary, a normative order (rules), ranks of authority (hierarchy), communication systems, and membership coordinating systems (procedures); this collectivity exists on a relatively continuous basis, in an environment and engages in activities that are usually related to a set of goals; the activities have outcomes for organizational members, for the organization itself and for society.

To put it simply, an organisation therefore relates to its environment in two ways: through its goals (its function, its strategy, and its purpose), and through the way it works (its structure, hierarchy, rules and values, its resources and specific capabilities). We decided to divide the latter element further, to allow the recognition that the structural and hierarchical dimensions of the firm are of a different nature from its performance tasks and practices, because they involve some political configuration. Therefore in order to grasp the dynamics involved in each layer, we propose the following definition of the firm, based on three dimensions that relate to each other:

- entrepreneurial synthesis
- structure and coalitions: the conception of control
- organisational routines

These three elements represent what the firm does and how it works. They are interrelated in the sense that the *entrepreneurial synthesis* is the very reason for the firm's existence, and that it defines a social space where a group of individuals can organise following a *conception of control* and perform tasks according to specific *organisational routines*. Such a definition seems very simple, but it integrates various perspectives concerning the firm by combining three elements that used to be studied separately. By developing these three layers, we can solve our initial problem and relate dynamic processes of adaptation to static pictures of business systems.

2.1. Entrepreneurial synthesis

The first layer in our definition of the firm is the *entrepreneurial synthesis*; it is the reason for the firm to exist, its purpose and its value proposition.

In his famous article about the nature of the firm Coase (1932) asked why a firm emerges at all. Why are there organisations in the first place? Why are they created? The answer given by Coase and extended by Williamson (1975) is found in the cost of using the market: a firm is created because it is cheaper to use hierarchy than market. But it remains the case that the founding of an organisation is not the automatic result of a given economic and institutional setting: for a firm to exist, there is a need for an entrepreneur, who will exploit the possibilities in the environment to start an enterprise. This is the message delivered by Schumpeter:

> The function of entrepreneurs is to reform or revolutionise the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganising an industry and so on. (1943: 133)

The entrepreneur is the one who notices the opportunities contained in the market and develops the idea that in the given situation hierarchy will work better than market. He is continuously involved in sense-making processes, in which he develops an understanding of his environment in a cognitive map (Weick, 1979, 1995; Weick and Bougon, 1986). His initiative in starting an enterprise is the result of a synthesis between a particular environmental setting, the technological, market, competitive and institutional conditions, and a particular governance structure, an organisation, in order to produce some goods or services in a way that is thought to be adapted to the environment. For that reason, we call *entrepreneurial synthesis* the very reason for the firm to exist. The *entrepreneurial synthesis* is best conceived as the solution to a problem; it provides an adapted response to an imperfection in the market. It is the essence of the capitalist enterprise, the shape of opportunism: the entrepreneur is the one who seizes the opportunities in the environment and provides an appropriate organisational response, in order to bring some kind of benefit eventually. Moreover, the *entrepreneurial synthesis* gives a purpose to the firm: it drives the organisation to perform a task and makes employees share some common objective. Through the *entrepreneurial synthesis*, the firm is conceived and its purpose is defined in relation to an environment. But it is only an idea of the firm; it does not yet correspond to anything tangible. Other elements have to be added to it, in order to define the firm properly.

2.2. The conception of control

The second element constituting the firm corresponds to the actual governance structure and hierarchy that makes the firm a collective entity.

As explained by Mintzberg (1979):

> Every organised human activity gives rise to two fundamental and opposing requirements: the division of labour into various tasks to be performed and the co-ordination of these tasks to accomplish the activity. The structure of an organisation can be defined simply as the sum total of the ways in which it divides its labour into distinct tasks and then achieves co-ordination among them. (2)

But these two elements, division of labour and co-ordination of tasks, can be further defined by noticing that the formal structure is exposed to political games and conflicts. The structure is not a formal organisation chart that works by itself; it corresponds to a confrontation between conflicting interests, which can only be fitted together thanks to a hierarchy of authority. The political dimension within the firm was outlined several times in the earlier literature review, as in the behavioural theory of the firm (Cyert and March, 1963), the resource-dependence and strategic-choice perspectives. Not only is the firm the creation of an entrepreneur, who seizes in an *entrepreneurial synthesis* the opportunities offered in the environment, it is also a social arena, where coalitions fight against each other, where individuals seek to increase their power. The formal structure of the organisation has therefore to be coupled with a political configuration. This is the description Mintzberg gives of the firm: he shows that the structure is reflected in power games and rival coalitions, which aim to dominate the firm and establish a hierarchy in their favour. He defines some categories which constitute the firm (strategic apex, middle line, operating core, technostructure, support staff), and thus illustrates the two inter-linked dimension of organisational structure: formal hierarchy and authority.

Political tensions and bureaucratic division of labour and co-ordination can combine because of the underlying mechanisms of domination, as was explained by Weber:

> Indeed, the continued exercise of every domination (in our technical sense of the word) always has the strongest need of self-justification through appealing to the principles of its legitimisation. (1978: 954)

The link between authority and legitimacy gives coherence to the collective entity that makes up the organisation. In bureaucratic organisations, which represent the most common form in our modern industrialised societies, rationally-regulated domination is the pre-eminent principle of legitimisation. "In that case, every single bearer of powers of command is legitimated by that system of rational norms, and his power is legitimate insofar as it corresponds with the norm" (954). Rational legitimation is critical in the sense that it relates political struggle and cognitive rhetoric:[16] it is only through justification that the dominant coalition can continue to rule (Boltanski and Thevenot, 1991). The dominant coalition therefore has to be the incarnation of the legitimate rationality. Domination and hierarchy, in return, are the product of a struggle to establish the legitimate rationality.

The functions of groups of individuals, as explained for instance by Mintzberg (1983), have an impact on their goals and on their perceptions of the organisation. The position of the agents in the organisation, which is, by definition, a structured social space, influences their sense of their place (Giddens, 1979: 117). It is a basis for a plurality of worldviews, which initiates a symbolic struggle for power and for the definition of the legitimate worldview (Bourdieu, 1987: 159). Political struggle between rival coalitions and formal bureaucratic division of labour and co-ordination can be combined, because the bureaucratic structure and the power configuration are two dimensions of the same reality. This reality is the accepted rationality about how to organise and control the firm. The ruling coalition maintains its authority and the corresponding power configuration only because it is legitimate, and this legitimacy derives from the fact that the ruling coalition is the incarnation of the accepted rationality about how to organise. This is another way to express the Weberian concept of authority in a bureaucratic system, which however adds to it the idea that the legitimacy based on rational rules is socially constructed. To make this aspect explicit, we use the term *conception of control*, borrowed from Fligstein (1990) who defines it as follows:

> Conceptions of control are world views that define one firm's relationship with others, what appropriate behavior is for firms of that type and how those kinds of organisations ought to work. (295)

This gives the idea of a coherent principle, a concept about how the firm ought to be organised, a concept that is considered rational. The *conception of control* is an expression of the institutionalised rationality about what ought to be done to perform in a given organisational situation. In Fligstein's use there are very few conceptions of control, probably because of the very general formulation he gives of it. But here, the term *conception of control* is used in a narrower way, at the level of an individual firm: the *conception of control* is the script about how the firm is to be structured and organised. It lists the resources, the division of labour, the mode of co-ordination and the hierarchy within the firm. It is also, and

[16] Strangely enough, these two dimensions have traditionally been kept separate in most organisation theories.

this is important, the basis upon which the legitimacy of the bureaucratic domination is established. As a generic principle, the *conception of control* contains the accepted best way to organise the firm, as regards its division of labour and authority, which means as regards the relative authority of rival coalitions. The dominant coalition is the promoter of the *conception of control* and its authority relies upon it.

An example can be provided to illustrate such a perspective. Let us assume there is a company A, with three coalitions: sales people, accountants and information technology (IT) specialists, and which is faced with a problem of profitability. Accountants promote *conception of control* 1, saying that costs must be under control and that employees must be constantly evaluated, in order to measure precisely where value is created and to limit expenses accordingly. Sales people promote *conception of control* 2, saying that management should be as simple as possible and avoid bureaucratic rules and that money should be invested in advertising to boost revenues. IT specialists promote *conception of control* 3, saying that the company should modernise its infrastructure and buy up-to-date software. Any argument may seem acceptable. However, *conception of control* 1 becomes institutionalised. From that moment, accountants develop a control system: they limit the resources of the other coalitions, determine the legitimate bureaucratic rules and end up dominating the other groups. The means by which institutionalisation occurs can be multiple, but they are always related to the environment. In the example, company A is actually copying what other companies in the industry are doing. Such an example illustrates how the *conception of control* formulates and holds together domination and legitimacy.

2.3. Organisational routines

The third and last dimension in the definition of the firm corresponds to the routines that enable it to perform specific tasks and display specific cultural features. Once the *entrepreneurial synthesis* has been defined and a social space is created where a *conception of control* holds together division of labour and bureaucratic co-ordination, it remains for the firm to operate. What the firm does is the result of *organisational routines*.

The concept of routines here is similar to that found in evolutionary economics (Nelson and Winter, 1982) and organisational learning (Argyris and Schön, 1978; Cyert and March, 1963; Levinthal, 1998). Routines are the deposit of the firm's know-how; they represent the way of doing things within an organisation. They contain the necessary programmes and the combinations of roles and resources that enable the firm to perform tasks. However, we extend slightly their properties, in order to recognise how routines also carry societal features.

This corresponds to the idea that the firm is not only an organisation, but also an institution (Coriat and Weinstein, 1995: 4). The reality of everyday life, which also contains cultural schemes and representations, maintains itself by being embodied in routines (Berger and Luckmann, 1968: 169). Routines and rules are reproduced over time by the members of the organisation, who thus activate organisational memory. But these routines contain more than a programmatic nature: meanings arise in interaction and they are preserved and included within the routines of organisational life (Scott, 1995: 41). This creates some kind of corporate culture, some rituals and collective images that are specific to the members of the organisation. Moreover, this practical experience does not operate in a vacuum: it is embedded in a social context because organisational members are also members of a society.

While they activate the routines of the firm, individuals also recall some societal elements of their environment. This is due to the duality of the social structure. "Analysing the structuration of social systems means studying the modes in which such systems, grounded in the knowledgeable activities of situated actors who draw upon rules and resources in the diversity of action contexts, are produced and reproduced in interaction" (Giddens, 1984: 25). In other words, social systems are reproduced over time because agents activate (or constitute) their structural properties. But because of the duality of structure, this activation is routinised, integrated by agents as they carry internally the structural properties of the system. As included in a business system, firms display in their *organisational routines* some of these structural properties. Combined with an *entrepreneurial synthesis* and a *conception of control organisational routines* make it possible for the firm to perform the tasks it is assigned and to subsist over time.

3. Resolving the initial problems

In this paragraph, we will establish that the layered definition of the firm fulfils the criteria that were identified earlier in the chapter and that it provides a useful framework for our fieldwork investigation.

3.1. Dynamic properties, agency and structure

As anticipated, our definition of the firm as made up of three dimensions (*entrepreneurial synthesis, conception of control* and *organisational routines*) offers the possibility of resolving the initial difficulties in our framework: the definition is dynamic and it overcomes the duality between structure and agency.

First of all, the three dimensions are intrinsically dynamic, as they represent temporary moments of political confrontations and cognitive developments. The *entrepreneurial synthesis, conception of control* and *organisational routines* are constantly re-asserted and reproduced; they represent solutions to problems that are constantly arising. They are by nature temporary and undergo perpetual modification, because they arise in changing settings. This representation enables us to grasp the movement inherent in organisational life and to apprehend change and adaptation as constitutive of the firm. Secondly, this representation of the firm offers a solution to the apparent dichotomy between a perspective focusing on managers and one focusing on the environment, as we can illustrate by looking more closely ~~look~~ at the three dimensions identified.

By examining how the *entrepreneurial synthesis* is obtained, it is possible to take into account the environment of the firm and the agency of its creator when seizing opportunities. The *entrepreneurial synthesis* contains a worldview and therefore has the environment inside it; it is not a pure abstraction, but rather the solution of the equation defined by the entrepreneur when he apprehends some market failure in his environment. This agency is not deconnected from environmental influence, because the synthesis is affected by institutional components and by the cognitive maps of the entrepreneur, which are influenced by many structural elements (Fiol and Sigismund, 1992; Weick & Bougon, 1986). As such, it recognises the influence of environmental properties. But the formulation of the *entrepreneurial synthesis* is also an agency; it corresponds to a positive act of creation by the entrepreneur. The *entrepreneurial synthesis* integrates therefore environmental influence and agency. This is also the case with the *conception of control.*

The *conception of control* relates to institutionalised rationalities that come from the environment. The legitimate way to organise is not disconnected from pressures in the environment of the firm, as was examined earlier in the review of institutionalist theories. The *conception of control* corresponds to some equilibrium between internal politics and institutional legitimisation. It integrates agency by showing the rival interests of the various coalitions and of the environment, by showing the legitimate and institutionally rationalised best way of organising. Here again, the *conception of control* resolves, by its dynamic nature, the apparent opposition between agency and structure within the organisation. Finally, routines also show the same property. Routines go through boundaries; they are learned and transmitted inside the firm and in the environment. The invention of new routines occurs both through agency and through the process of socialisation. Routinisation incorporates some agency, because agents are conscious of their actions, which they monitor reflexively (Giddens, 1984: 64). Facing specific problems, agents may depart from habitual behaviour and alter the *organisational routines* or invent new ones. At the same time, routines are also influenced by environmental components, and they continuously integrate reality from external spheres. The environment therefore permeates the organisation, and is incorporated into the routines. This explains why, here again, there can be a connection between managerial agency and environmental pressures.

In summary, the proposed description of the firm presents a concept of adaptation that meets our initial requirements: it is dynamic, and it overcomes the structure-agency divide. But we can also show that thanks to these properties it fits within the business-system framework.

3.2. The layered model fits within the business system perspective

We built our definition of the firm based on the three layers (*entrepreneurial synthesis*, *conception of control* and *organisational routines*) so as to provide dynamic processes of adaptation to be integrated within the business system framework. We can briefly establish that this is the case, by recognising how each layer is the expression of some variables identified by scholars using either business-system or societal approaches.

Lane (1989, 1995), Sorge (1995) and Whitley (1992, 1999) provide clear insights about the variables that can be used to categorise the diversity in actors and systems. Sorge (1995: 73) lists five categories:

- organisation of work
- human resources, training and socialisation
- industrial and sectoral structures and relations between such industries and sectors
- labour markets
- technology

Whitley (1999) identifies four key institutional features (state, financial system, skill development and control, and the norms governing trust and authority relationships) and relates them to two key characteristics of firms (governance, and organisational capabilities and strategies) (79). If we add to these variables such complementary elements as group coalitions and what Whitley (1992) calls "business recipes", which represent the institutionalised rationality about how best to organise, we can relate our three layers to the series of variables that characterise business systems. Because of the definition of the *entrepreneurial synthesis*, *conception of control* and *organisational routines*, we can identify which variables apply to each layer and make their empirical meaning more explicit. We can also distinguish between those variables relating to the internal dimensions of the firm and those relating to its environment. The following table shows how these variables are combined in the three layers of analysis:

Table 3 : the layered model of the firm in relation to the business system framework

Layer of analysis	Key characteristics of firms in the business system	Environmental features In the business system
Entrepreneurial synthesis: Integrates an understanding of the environment and a response to it in terms of business proposition	Business proposition - governance structure - strategy	Understanding of the environment by the entrepreneur: - institutional environment, and in particular the State and financial system - market structures and competitive drivers - associations and professional bodies
Conception of control: Expression of the institutionalised rationality about how to best organise work	- group coalitions internal to the firm - division of labour and employment structures - human resource management (pay, promotion, training)	- business recipes - inter-firm relations - industrial relations and labour market
Organisational Routines: Programmes, combinations of roles and resources that enable the firm to perform tasks	- task definition and information flows - organisational capabilities and use of technology - corporate rules and socialisation	- training and education - norms governing trust and authority relationships - technology and resources

In the table we set out the links between the key variables used to categorise business systems and our three analytic layers. In the following chapters, we will use these variables to characterise each layer, and build ideal-types such as the French model of the mid-1980s and the Anglo-Saxon model. This will show how applicable our framework actually is.

3.3. The layered model provides the necessary tools to analyse organisational adaptation

The final requirement is that the framework must allow the analysis of the processes of organisational adaptation, which means identifying and interpreting organisational dynamics. To do this, we introduce four processes that relate to the layered definition of the firm and which should encompass the firm's dynamics.

The design of the three layers of analysis followed the idea that individual organisation theories have tackled adequately only some aspects of organisational life. For that reason, and even if we may not have insisted much upon it, each of our three layers borrows from distinct theoretical concepts. For instance, *organisational routines* are related to the organisational learning perspective, while *entrepreneurial synthesis* is more related to strategic choice and institutional economics. At the same time, however, all three layers have some links to Institutionalism, for the simple reason that the business system perspective is part of this approach. To describe the processes of adaptation therefore, it makes sense to consider the concepts developed by some organisation theories, and to use them appropriately for one specific layer of analysis. We identified four processes, which should cover the whole dynamics of adaptation.

The first three processes correspond to the adaptation of the firm to its environment, whereas the last one corresponds to the attempts of the firm to alter its own environment. There is no need to defend our choice of these four processes, because they result from the layered model of the firm. Admittedly, these changes happen through complex mechanisms that can hardly be described in linear terms. We will show here that each process can be tackled by using particular organisation theories applying to the appropriate layer of analysis. The four processes are the following:

- change in the entrepreneurial synthesis
- change in the conception of control
- learning of new organisational routines
- manipulation of the environment

Each represents a specific way for the firm to adapt to its environment, and each proceeds from the definition of the three layers identified earlier. By reconstituting the firm around different levels, it is possible to use the theories as instruments to describe reality. For instance, to describe a process of 'learning of new *organisational routines*' we will use the concepts and insights provided by the organisational learning and population ecology streams.

The following table illustrates which theories are available to tackle which process:

Table 4: Adaptation processes and corresponding analytical tools

Processes of adaptation	Available theories	Analytical concepts
Change in the entrepreneurial synthesis	- institutional economics - strategic choice - new Institutionalism - contingency theory	- change in the entrepreneur's worldview about the opportunities and constraints in the environment and within the organisation - diagnosis and decision-making about strategic changes (e.g., divestment, re-positioning, change of core-business) - implementation of a new entrepreneurial synthesis
Change in the conception of control	- new Institutionalism - organisational learning - resource-dependence - strategic choice	- production of new conceptions of control (internally through innovation or externally by professionals, competitors, advisors) - confrontation between rival coalitions - institutionalisation of a new conception of control
Change in the organisational routines	- organisational learning - population ecology - new Institutionalism	- experimentation, stimulus-response learning cycle - searching and noticing (recruitment of new staff, acquisition of companies, consulting fees, investment in information technology) - diffusion (passive learning through contacts with the environment)
Manipulation of the environment	- resource dependence - new Institutionalism	- merger and acquisition of rival companies - lobbying towards the State, the professions and other authorities - legal action or influence towards competitors and stakeholders

It may seem that the above table contains too many theories and concepts to provide a coherent appraisal of the adaptation processes. But to take this view would be to miss the very nature of the framework that we are trying to design. The underlying methodology is indeed interpretative, which means that theoretical tools are meant to provide the basis for an evaluation of reality. When dealing with any particular case, we will have to recognise which of the processes listed above apply and which do not. And our list of organisational adaptation processes offers the possibility of identifying and categorising what we observe, and of relating it to other variables and theoretical concepts. The framework is now almost complete, and we can briefly outline the general method that can be used for the analysis, before applying it to the case study:

1. Setting up the analysis: defining the organisational field, the time frame
2. Categorising firms' patterns and behaviours, using the layered model, at different historical moments (possibly through ideal-types)
3. Evaluating the changes in the organisation
4. Looking for organisational adaptation processes
5. Interpreting the transformation

Once again, little justification is necessary for such an approach: it stems from our framework. This generic method was used in our case to analyse the transformation of the French asset management industry over the period 1984-1999, but we believe it could be used in other case studies.

In summary, we have now built a theoretical framework that should allow us to tackle organisational adaptation within the business-system perspective. As we explained at length, it was not an easy attempt; but we hope it was worth the effort, because of the theoretical concepts we have now gathered. They will enable us to structure and organise better the collection of data, and to analyse and interpret the evidence. However, in a preliminary step, it is important to show how we can define our three layers in the French asset management case, given the structural properties of that industry.

4. Applying the framework: key variables in the French asset management industry over the period 1984-1999

Our analytical framework should allow us to investigate organisational adaptation within the business-system perspective. We saw that the framework has two dimensions:

- an analytical one, which attempts to categorise the patterns of organisation and behaviour of the firms at a given historical moment
- an interpretative one, which attempts to identify and conceptualise adaptation processes between two distinct moments

Admittedly this means that there are several variables included in the framework. Following the method just outlined, we will now try to simplify the scope of our investigation, by concentrating on the critical variables, those that result from the structure and properties of the asset management business. In this way we will show how we can apply our framework and anticipate the analysis of the following chapters. Two elements are critical in the French asset management business: first it is operated by a variety of players, which also operate in other financial services; second, it presents a duality in the demand, between private and institutional investors. Because of that, the *entrepreneurial synthesis* of the firms in the field resolves the problem of combining a means of distribution with a particular positioning (client target and product offer). An analysis of work organisation will then help us clarify the variables relating to the *conception of control* and *organisational routines*.

4.1. Defining the entrepreneurial synthesis

There are two key elements in the asset management business: the diversity of players and the duality in the demand. This will lead us to understand the *entrepreneurial synthesis* as a solution to the problem of combining distribution and positioning.

4.1.1. The demand side: a duality in the market

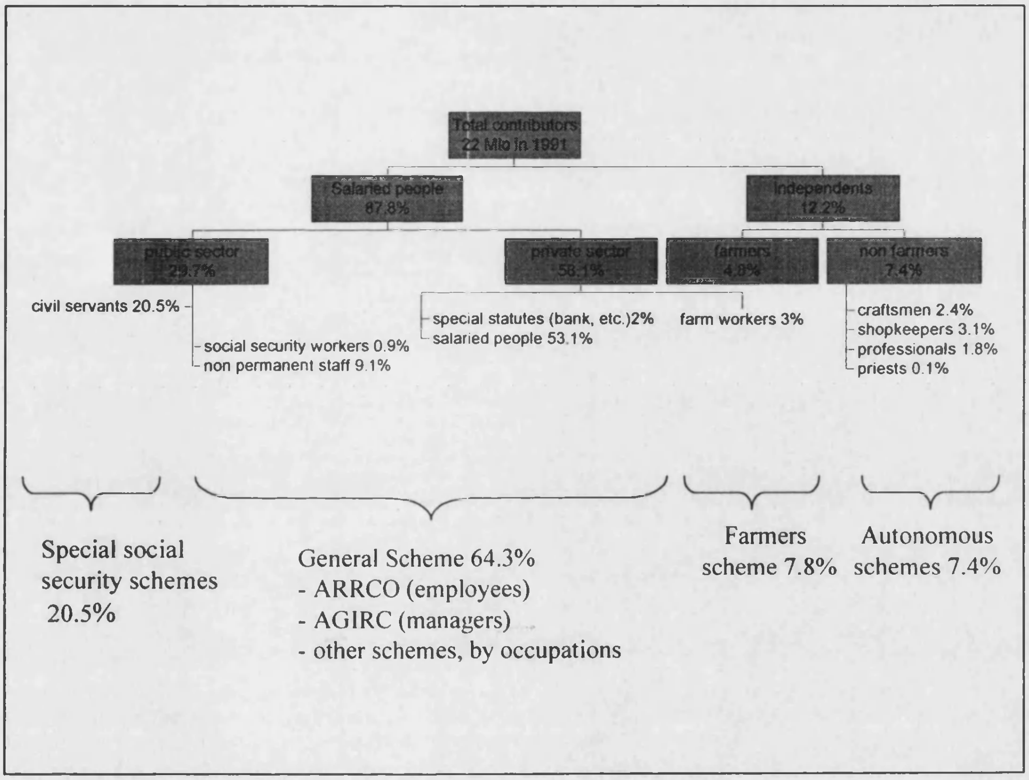
It is not possible to understand the French asset management market without noticing that demand is extremely diversified. Depending upon their assets and liabilities, and their risk sensitivity, clients express very distinctive preferences about their investments. But behind this apparent diversity, it is possible to distinguish between two segments:

- institutional investors: pension funds, insurance companies, banks, associations and any medium or large company
- private investors: households, families, any individual with some free cash

As one director of an asset management firm told us: "between the institutional clients and the retail networks' clients, the market has two logics". What is striking in the asset management industry is the relative difference between institutional and individual investors, in their degree of sophistication. This difference is then articulated around the distribution of asset management services.

Institutional investors have sophisticated requirements that they can express precisely because of their capacity to analyse their assets and liabilities; they can formulate what they want, and how they want their money to be invested. For instance, business firms tend to require short-term money management services, especially because French law prohibits the payment of interest on deposits in bank accounts. Firms also have some specific needs for company savings scheme and other reserves. Banks and insurance companies probably make up the largest share of the institutional demand for asset management; they have large amounts of reserves and liabilities from deposits, insurance policies and future claims, and they sometimes prefer out-sourcing the management of these funds. Finally, an important group is represented by French pension funds, called Caisse de Retraite Complémentaire. The French pension system is based on a contributory scheme, where active workers pay contributions that go directly to pensioners. But in addition to that there are some complementary retirement schemes that add to the standard pension. They are funded by individual contributions from workers and are organised by various occupations or corporations; they are often led by former trade unionists or by delegates of the relevant corporation. The following diagram gives a presentation of this system. It is important to notice that these pension funds are part of institutional networks. Some occupations, for historical reasons, have particular links with particular banks or insurers, especially in the mutual sector. The most notorious example is the case of Crédit Agricole, which used to fund France's rural sector. For that reason, such corporate networks particularly influence customer relationships in the French market.

Figure 4: French supplementary pension system



Source: *Eurostaf*, 1994

Private investors are not as sophisticated in their asset management requirements. They tend to choose an investment vehicle, instead of defining a precise mandate for their asset manager, and in most cases they choose mutual funds. Mutual funds are regarded as commodities:[17] anyone can buy a share of a SICAV or FCP, without having to have any personal relation to the asset manager in charge. Moreover, these funds can be sold by a variety of distributors and promoters: banks, insurance companies (through life insurance

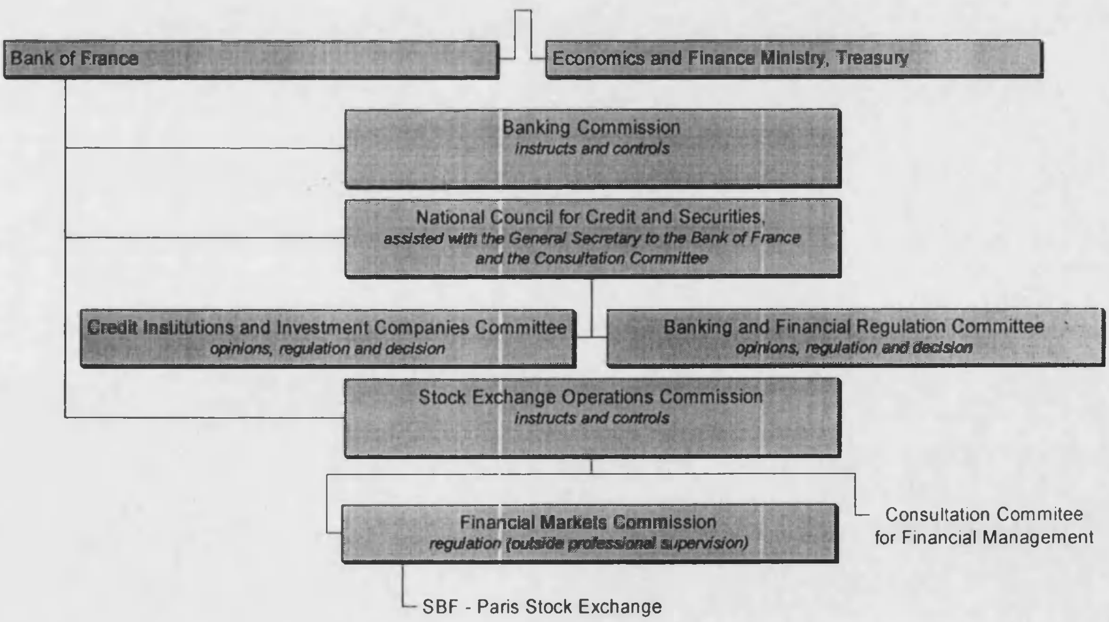
[17] One CEO of an asset management company even told us the distribution and selling of mutual funds was very similar to ~~the one~~ that of yoghurts, to signify that he treated mutual funds as commodities.

policies), financial advisors, retailers or even through direct selling and Internet. Consequently, and to make an analogy, the asset management industry is similar in its polarity between mandates and mutual funds, to the fashion industry, where "Haute Couture" is opposed to "Prêt-à-Porter". What is particularly interesting in the asset management industry is the fact that segmentation among clients is articulated along different distribution strategies. But before that, we should mention the variety among market players, in the offer side of the market.

4.1.2. Three categories of players

When considering the offer of asset management services, it is important to notice that not just any company is authorised to provide asset management services. This business has a restricted access to those companies that successfully passed the test of licensing or accreditation.[18] Two types of organisation are allowed operating in this business: credit institutions and investment firms. In the following diagram, the supervision authorities impacting on the asset management industry are represented. As can be seen, both banking and financial market authorities play a role.

Figure 5: French asset management supervisory authorities



Source: Association Française des Banques and author

[18] Before 1988, individuals or limited partnership were entitled to offer portfolio management services, but after the 1988 law -which, by the way, was a transposition of the European directive- this possibility was restricted to companies.

There is a particular difficulty in trying to define the organisational field of French asset management: the players in this business may have different origins and different affiliations to particular types of financial services or professional bodies. By looking in more detail at the French market, it is possible to identify three groups of players, each with distinct properties.[19]

The first category is the independent players: independent because not related to a retail bank or insurance company. Given their market shares, they look like residual actors; but they are the most numerous and they tend to target specific niches. The AFG-Asffi, the association of the asset management companies, has labelled them 'entrepreneurial' players (AFG annual report, 1999), because they do not have many employees, usually less than thirty. These players are the heirs of the historical development of France's capital markets and they are made up of three categories: portfolio management companies coming from investment banks, those coming from stock exchange companies, and those created after 1988. Investment banks, like Hottinguer, Stern, Neuflize-Schlumberger-Mallet, Lazard, Louis-Dreyfus and Rothschild, have a long tradition of wealth management, which was extended over time to other institutional and private clients. Stock exchange companies have also had some asset management capacities, historically through some of their employees called remisiers, who gave advice and administered clients' portfolios; and later, when remisiers and agents de change were abolished, by using their own resources and portfolio management subsidiaries. Finally, after the 1988 law that created portfolio management companies, some new firms were founded by investment experts who had left larger structures. These three types can be grouped together, because all of them have the same *entrepreneurial synthesis*. They target individuals with a medium to high capital as well as institutional investors, and they operate through direct contacts and direct sales forces; they use external providers to cover the whole value chain and to sell a particular expertise with a limited number of products. Their competitive strength lies in their capacity to develop personal relationships with their clients and to offer tailor-made services. All these independent companies

[19] In the thesis we may use alternative names to qualify fund management companies, those firms that sell asset management services: we may use asset management firm or portfolio management company to qualify them. There is no significant difference between the three designations, all the more so as the equivalent French word, which was used during the fieldwork, is "société de gestion" (management company), which is an abbreviation of either portfolio, fund or asset management company. But this slight fuzziness is interesting because it goes with some diversity between market players, and with the difficulty of defining asset management without referring to other established financial services.

constitute the largest number of players in the industry, even though their market share is fairly limited. Two other categories, because of their relation to large distribution networks, represent the most prominent part of the business.

The second category of players in the asset management market is that linked to large retail banks. Their *entrepreneurial synthesis* is to use the distribution network of the bank to distribute mutual funds or life insurance, and to pinpoint the accounts of companies or wealthy individuals who may be interested in asset management mandates. This may involve some private banking capacities. The funds thus collected are then managed centrally by the fund managers of the bank. We will see later how their internal organisation evolved over the period 1984-1999 and how autonomous subsidiaries emerged. Because of the size of their networks and the number of their clients, they have the largest market share in the industry.

Insurance companies are the last category of players. Historically they have developed strong asset management capabilities, because they have always had to manage their mathematical reserves in order to secure the payments of future claims. Life insurance, even if it covers a risk (the risk of death), is very close to portfolio management. But the largest insurers have also tended to manage the funds of some pension funds, or of some of the smaller insurance companies which lacked the capacity to manage their own accounts. In the early 1990s some insurance companies used the possibility, offered by the new law on portfolio management, to create portfolio management companies which then grew to become some of the market leaders in terms of assets under management. Their *entrepreneurial synthesis* is to exploit some of their traditional competencies in asset management for their own account, and to extend it to third parties by exploiting the resources of their distribution network. It is therefore very close to that of retail banks.[20] The *Caisse des Dépôts et Consignations* (CDC) is the state-owned financial institution in charge of managing the assets collected by the *Caisses d'Epargne*, by *La Poste*, the French public postal service, and by CNP, the largest life insurance company in France. Despite its particular characteristics we put CDC together with insurers, because it also uses its own account capacities to offer asset management services to external clients, and because it uses a large retail distribution network.

We have identified three different categories of players in the asset management field, but they do not have similar market shares. This is shown in particular by looking at the segment

[20] It should be noted that retail banks also offer life insurance products, and that the presence of insurers in the asset management business reflects the trend among financial institutions to offer a whole range of financial products.

of the market devoted to mutual funds. Europerformance estimated that at the end of 1998 the ten market leaders had 62% of the market in SICAV (open ended mutual funds). The leading players were the large retail banks and the CDC, which itself had more than 10% of the market. Comparable statistics show that in 1985 the ten largest market players had 64% of the mutual funds market and the largest thirteen more than 70%. These high concentration levels in mutual funds can also be observed, if to a lesser extent, in the institutional segment. Here it is first and foremost the insurers that dominate the market, because they tend to give the management of their reserves to their own asset management subsidiaries. As a result, the leading French insurance company AXA had around 9% of the institutional segment in 1997 and AGF more than 6% in 1998.[21] The French asset management market is therefore concentrated and dominated by a few players. This did not prevent the industry consisting of more than 300 portfolio management companies at the end of 1998 (AFG-Asffi annual report 1999).

And interestingly, asset management companies also confront one another in the professional field, through a large number of associations: the French regulator makes it compulsory for credit and investment firms to join a professional body. Until 1997 and the creation of AFG-Asffi as a single professional entity for the asset management business, there was no clear domination by any one association in the field, as can be seen in the next table and the graph following it. But to adapt Bourdieu's analysis of the literary field at the end of the nineteenth century (1992: 205): the role of the French State has been very important in the financial sector. Because of that, it was considered important to arrange the various categories of players in line with their links to the State, which has closer ties to players which are either state-owned (CDC, CNP), formerly state-owned (Crédit Lyonnais), or mutually-owned than to independent players operating on the stock exchange. The opposition between state and market is thus relevant in the asset management business, and we used it to position the different players in the field.

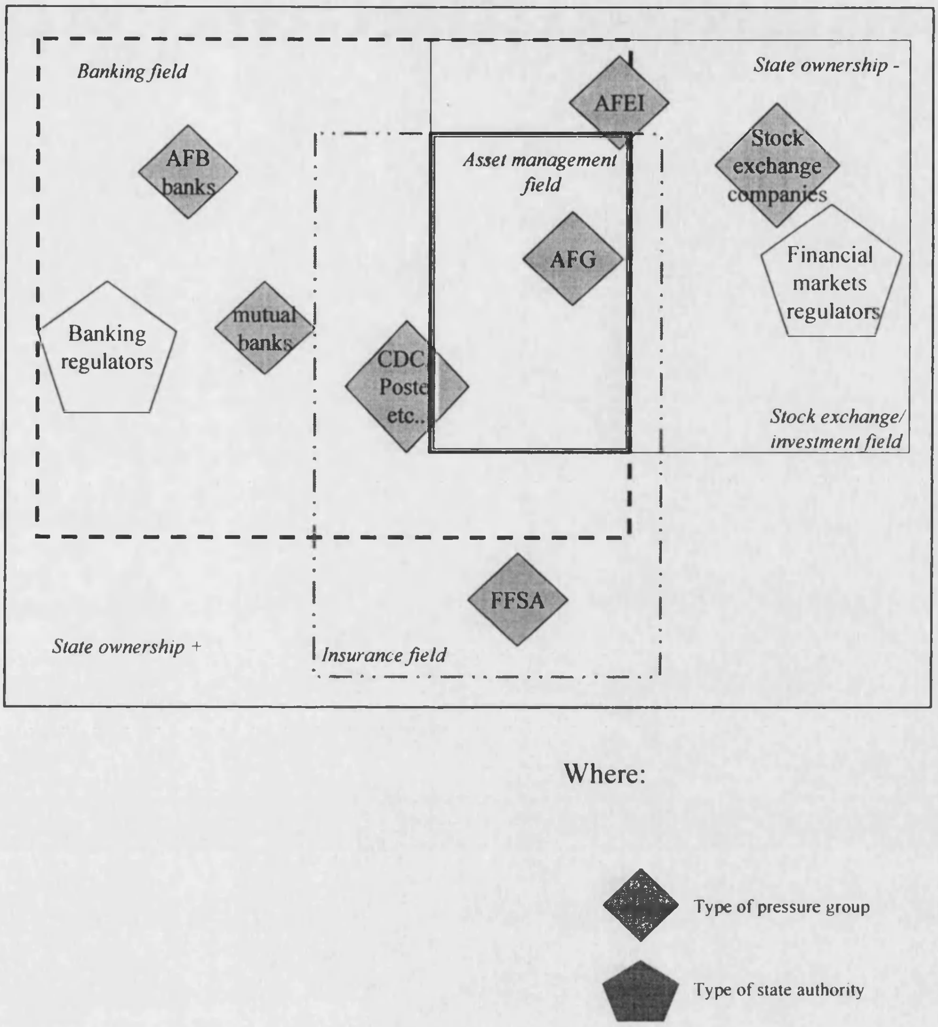
[21] According to their annual reports for 1998, AXA managed FF 452 billion (mutual funds excluded) and AGF FF 283 billion, in a total market of FF 4775 billion (AFG-Asffi, 1999).

Table 5: Professional associations in the French financial sector

Representative body	Financial institutions	Members (in 1998)
	I. Entitled to operate a credit activity and to receive short term deposits from clients	
Association Française des Banques (AFB)	All non-mutual retail banks, investment banks and foreign banks established in France.	406
Fédération Nationale du Crédit Agricole (FNCA)	Mutual banks historically specialised in funding the agriculture sector and united in a national federation. It is organised as a single group comprising one national unit and some regional and local branches, as well as financial companies.	53
Chambre Syndicale des Banques Populaires (CSBP)	Mutual banks comprising a national and some regional branches.	30
Confédération Nationale du Crédit Mutuel (CNCM)	Mutual banks, established in the main regions of France and having substantial large autonomy.	18
Caisse Centrale de Crédit Coopératif (CCCC)	Mutual banks devoted mainly to associations, small and medium businesses and cooperatives.	36
Centre National des Caisses d'Epargne et de Prévoyance (CENCEP)	Organised at a regional level and benefiting from privileged products (livret A); they are linked to the French state.	35
Conférence permanente des Caisses de Crédit Municipal	Similar to building societies, they are locally based.	20
	II. Companies offering investment services	
Association Française des Entreprises d'Investissement (AFEI)	Created in 1996, this association represents French investment companies. Its members may also be part of other associations.	80
Association française de la gestion financière (AFG-Asffi)	Created in January 1997 from a merger of the association for portfolio management companies (AFG) and that for investment funds (Asffi).	326
	III. Insurance companies	
Fédération Française des Sociétés d'Assurance (FFSA)	Main representative body of the insurance companies (96% of all companies).	326

Source: AFB 1998, Apec 1997 and associations' websites

Figure 6: The asset management field in 1998



As the diagram shows, the French asset management organisational field is at the intersection between three areas: the banking, insurance and stock exchange/investment fields. This follows directly from the typology of the players in the asset management business and their professional affiliation. The different fields confront each other when shaping the asset management business, because each of them has its own professional and possibly legal bodies. We will see later that the key element in the transformation of asset management was its constitution as an autonomous business, as a new organisational field in which Anglo-Saxon practices could be implemented. We should also mention that trade unions still have some influence, especially in the banking and insurance sector, and that they should be taken into account when looking at the internal dynamics of the field. Now that we have identified the players, we can discuss further how the *entrepreneurial synthesis* may be defined.

4.1.3 Defining the entrepreneurial synthesis

From our analysis, it appears that the *entrepreneurial synthesis* is the solution to the problem of combining products, distribution channels and customer focus. There is indeed some correspondence in French asset management between the duality in demand and the means of distribution.

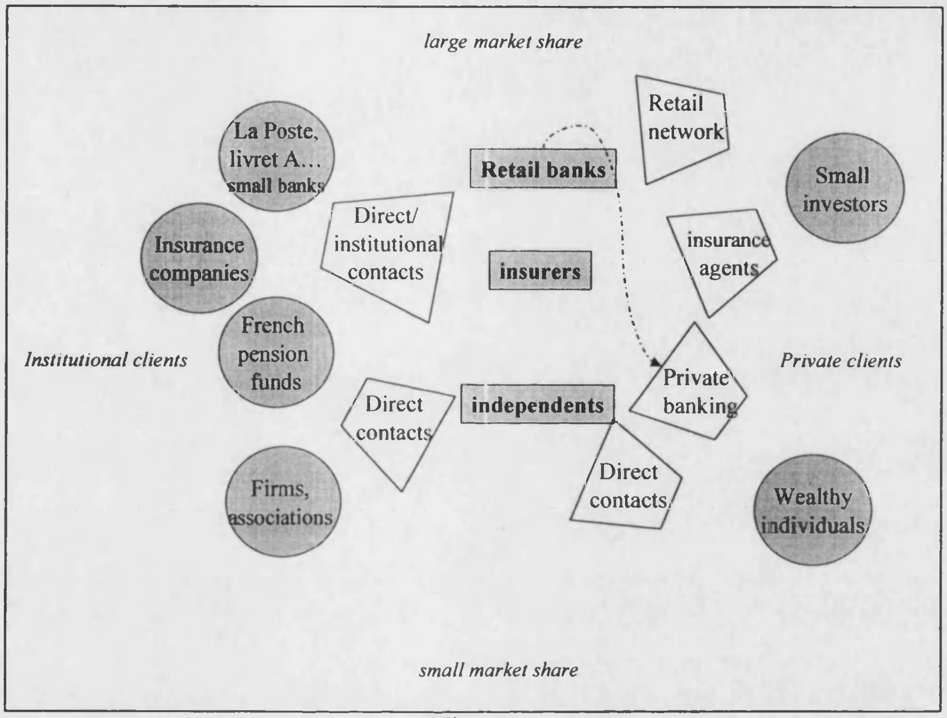
Because they have less sophisticated needs, private investors tend to use mutual funds rather than mandates when they hire an asset manager. Mutual funds are distributed through mass retail networks, and as a result private individuals have few direct contacts with their fund management company. They find their products through retail banks, through insurance agents and through retailers, or through such new distribution networks as financial advisors, direct selling and the Internet. Institutional investors, on the other hand, normally have direct relations with the sales forces of investment companies. This is because they may not wish a standard service, as in mutual funds, but one specific to their needs. Such is also the case with wealthy clients, who normally receive a very personalised service, either through the private banking department of the retail bank, or through direct contact with the investment company. Consequently, the segmentation in the demand has a structuring impact on the industry's organisation: different segments are treated in different ways and with different types of services. While a private investor may simply buy a share in a mutual fund, a pension fund or a company saving scheme trust may choose to open a whole account to be managed entirely by the portfolio management company. The following table briefly summarises these elements:

Table 6: Demand segmentation

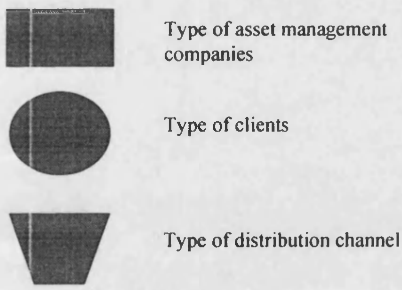
Segment	Clients typology	Products	Distribution
Institutional segment	- pension funds - insurance companies - 401K, company saving scheme - charities - governments - firms	- tailor-made solutions - mutual funds - dedicated funds - bank accounts	- direct contact with sales force - through bank retail networks or new distribution networks (Internet)
Private clients segment	- wealthy individuals	- combination of instruments - bank accounts	- direct contact with an adviser
	- private investors retail clients	- mutual funds (following risk category)	- retail network (bank, insurance) - other distributors (supermarket, department stores) - financial advisors - direct marketing (mail orders, phone) - Internet

The polarity in the asset management industry is therefore combined with a particular complexity in terms of market players and product variety. This has an impact when defining the *entrepreneurial synthesis* of the firms in the field: it has to combine a particular distribution network with a customer target and associated product offer. The following diagram represents how the French asset management field is structured:

Figure 7: Links between distribution channels and cusomers' types



Where:



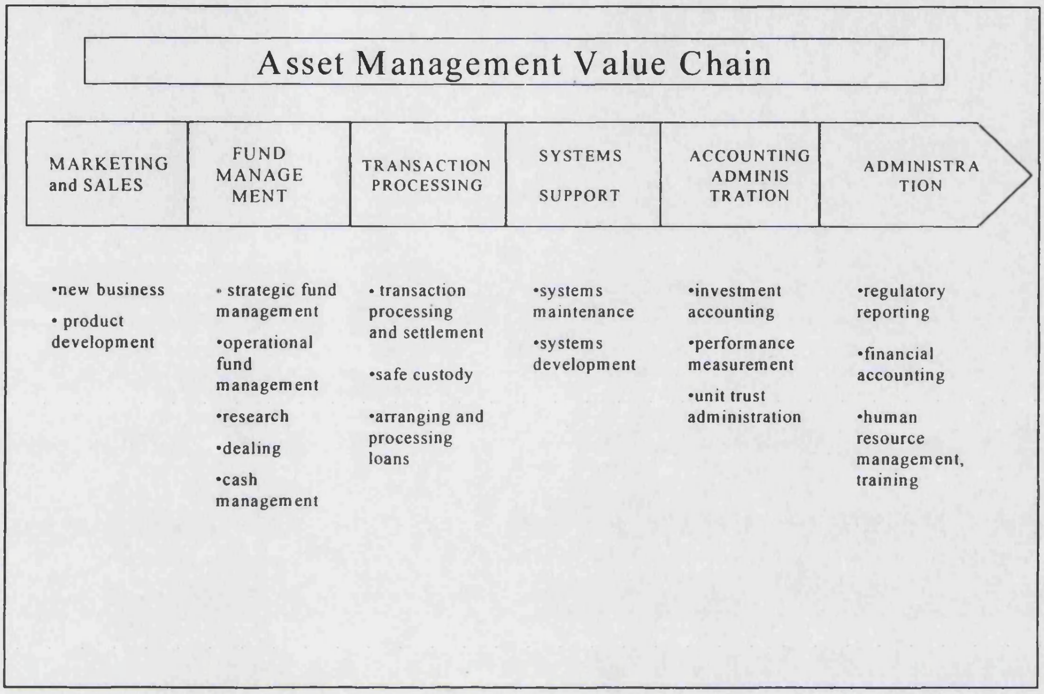
The diagram shows that the asset management business is structured along distribution channels which correspond to customer segments. These elements, together with the earlier analyses of the organisational field, help us select the relevant variables to consider in the empirical investigation. These variables will be at the core of our design of distinct ideal-types in the following chapters. We will show that the French asset management model focuses on private clients, through large integrated retail networks, while the Anglo-Saxon model tries to target a variety of customers through several distribution channels.

4.2. Defining the conception of control and the organisational routines

We have managed to identify the key elements that contribute to the definition of the *entrepreneurial synthesis* of firms in the asset management business. We can now briefly focus on the two remaining layers of the framework: the *conception of control* and the *organisational routines*. Here we will provide some insights into the elements that contribute to define them, in order to introduce the evidence of the next chapters. In particular, to present the *organisational routines* and the *conception of control* in the French asset management business, we can use two analytical tools: the value chain, and a description of the various coalitions inside the firm.

To categorise the different tasks that constitute asset management, and thereby define the *conception of control* and *organisational routines*, it is useful to refer to what Michael Porter (1986) calls a value chain. The value chain distinguishes between the basic tasks which must be combined to obtain the desired outcome and create added value. These tasks represent the major organisational routines in the company: the organisation members remember them when they perform their duties. In the asset management business, the core activity is obviously fund management, which is the activity of managing portfolios to satisfy as well as possible the expectations of one's clients. But this activity has to be supplemented by three functions. First of all, there is a need for support staff, as in any organisation, and this involves information technology, human resource management and administration. Another function in this area is control, which involves accounting administration, the economic valuation of portfolios and performance measurement. Then, fund management requires a specific support in terms of calculation and accounting, to register all the operations on the portfolios and to relate to the other business partners, stockbrokers and custodians. This corresponds to the traditional function of back-office. Finally there is a need to relate to clients, either directly or through a distribution network, and these tasks involve marketing and sales. This concept of a value chain is illustrated by PricewaterhouseCoopers, which every year carries out a study of the fund management industry in the United Kingdom and gives the following description of the business (figure 8). The value chain shows two main dimensions in the *organisational routines*. Firstly, the treatment of information appears as a core activity: the gathering, processing and analysis of data support the decision to invest. We will show in the following chapters that in this area French firms tended to rely on individual talent and external networks, while Anglo-Saxon firms relied on company rules. Secondly, the relationship with customers underpins a large part of the activities, starting with marketing and sales. We will also show differences between a French model relying on mass distribution and networks and an Anglo-Saxon model based on market rules and selection. But the value chain also provides interesting insights about the *conception of control*.

Figure 8: Asset management value chain



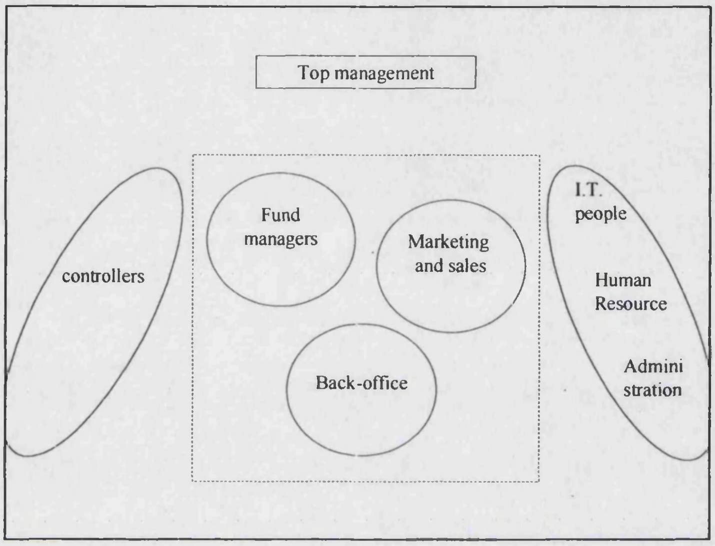
Source: PriceWaterhouse, 1996

This value chain reveals some internal tensions within any asset management organisation, because of differences in the roles and functions of the organisation members. To define the *conception of control*, we will analyse the division of labour within firms, in order to understand which perceived best way to organise it reflects. This will be related to the human resource management. At the same time, we will relate the division of labour to the coalitions present in the firm. As explained earlier, coalitions in the organisation formulate competing *conceptions of control*, which promote their own perspectives. These views are influenced by the positions of the coalitions in the organisation and by their functions. Applying Mintzberg's (1979, 1983) terminology, and using the job design provided in the precedent value-chain, we can therefore identify the following coalitions inside any asset management business:

- strategic apex: the top management of the company
- technostructure: the controllers in charge of the accounting administration and reporting
- support staff: information technology, human resource management and administration people
- the core workers: fund managers, marketing and salespersons and back-office

All these coalitions can be represented in the following diagram, which shows the various groups in the organisation along these four categories. The diagram does not give any idea of the interactions between the groups, and only provides their position in the internal structure of the organisation. But it shows clearly how the internal organisation is structured around particular groups and coalitions.

Figure 9: Coalitions inside asset management firms



The diagram offers a clear presentation of the various groups within asset management companies and how their positions in the organisation drive them to favour particular *conception of controls*. We will see in a subsequent chapter how in the French model of the mid-1980s fund managers were the dominant coalition, and how they lost this position when a new *conception of control*, based on an investment process, was established, very much on the Anglo-Saxon model. Now that we have detailed the functioning of the business, it is possible to conclude, and to determine the variables most relevant for the examination of adaptation processes in our analytical framework.

5. Conclusion

In this chapter, we managed to develop a theoretical framework analysing organisational adaptation within the business-system perspective. This was possible after overcoming a number of difficulties, and in particular by using Giddens' theory of structuration to link agency and structure. We produced a layered model of the firm based on *entrepreneurial synthesis*, *conception of control* and *organisational routines* and considered how they operated in the French asset management case. This led us to recognise some further peculiarities in this business, to design some complementary analytical tools and to establish the key variables to be tackled. These key variables, applied to our case study, can be presented in the following table.

Table 7: key variables to be used for the investigation

Empirical problem for each layer of analysis	Variables to examine inside the firm	Variables to examine outside the firm
Entrepreneurial synthesis: How does the individual firm in the organisational field combine distribution, customer target and product offer?	- Formal structure - Relationship to distribution networks - Customer target	- Regulatory and institutional constraints regarding licensing and supervision - international competition - distribution channels, size and evolution of the segments in the demand - professional associations competing around the asset management business
Conception of control: How to best manage people and technology?	- Division of labour - Group coalitions and control system - Human Resource Management (pay, promotion, training)	- Inter-firm relations - Business recipes - Industrial relations and labour market
Organisational routines: Which are the basic tasks performed in the firm and which type of information is produced?	- Information flows and company rules - Client relationships	- Norms governing trust and authority relationships - Technology - Training and education

With these analytical tools, it is now possible to represent systematically how the French asset management industry was organised in the mid-1980s and how it contrasted with its Anglo-Saxon counterpart.

CHAPTER IV: THE FRENCH MODEL OF THE MID-1980S AND THE ANGLO-SAXON MODEL

Now that we are equipped with the necessary theoretical tools to understand the case study, it is possible to present the results of our investigation. This chapter introduces the two ideal-types sustaining the analysis of the transformation of French asset management industry: the French model of the middle and late 1980s and the Anglo-Saxon model. As outlined in the last chapter, we will look at a number of variables, and point out the typical patterns that qualify our three layers (*entrepreneurial synthesis*, *conception of control* and *organisational routines*). We will find a radical contrast in the mid-1980s between the French model and the situation in the United States and Britain. While French asset management was integrated within banking and insurance structures, and was therefore prevented from attaining any visible identity, in Britain and America the distinctiveness of this business was recognised and it was independent and organised separately. While in France it was organised around fund managers in the manner of a craft, in Anglo-Saxon countries it was organised in the manner of an industry, around a precise division of labour and bureaucratic rules. Human resource management in the French model was based on restrictive rules similar to those in the public service, whereas in the United States and Britain there was much flexibility and use of the external labour market. Finally, the relationship between business and customers also differed, with personal trust and historical networks in France, and largely impersonal and contract-based selection procedures in the Anglo-Saxon model. In illustrating how these elements combine and give coherence to the ideal-types, we will show that our theoretical framework represents a first contribution by the thesis, to fieldwork-based research of embedded economic action.

1. The French model of asset management in the mid-1980s

The French asset management industry, in the mid-1980s and, as we will explain later, until around the mid-1990s, was remarkable in so far as the asset management business was not identified or recognised as a distinct financial service. The French model was one of vertical integration of asset management within banking and insurance structures, in the typical fashion of universal banking. Moreover, it displayed a remarkable coherence between structures, hierarchy and work relationships, and echoed what many authors wrote about French management and labour. To use our layered model, the French asset management model can be summarised as follows:

Table 8: the French asset management model of the mid-1980s

Layer of analysis	Key characteristics of firms
Entrepreneurial synthesis	- Exploit the capacities of a large distribution network to sell mostly mutual funds to private investors - Sell customised products to captive clients
Conception of control	- Let talented fund managers provide good financial performances - Craft-like work organisation - Human resource management identical to the rest of the company and close to the public service sector - limited corporate control; domination of the fund managers
Routines	- fund managers use their personal knowledge and competencies; no systematic rules, *ad hoc* use of information technology; focus on financial analysis more than on computer models - information exchange within networks of brokers and other stock exchange professionals but individualistic decision-making - customer relationships embedded in corporate and personal networks

Building on the analytical framework outlined in the last chapter, we will use the information provided from five areas of investigation (formal structure, organisation and division of labour, human resource management, hierarchy and control, use of financial information and information technology, relationships with customers and business partners) to illustrate the internal consistency of the French model of asset management.

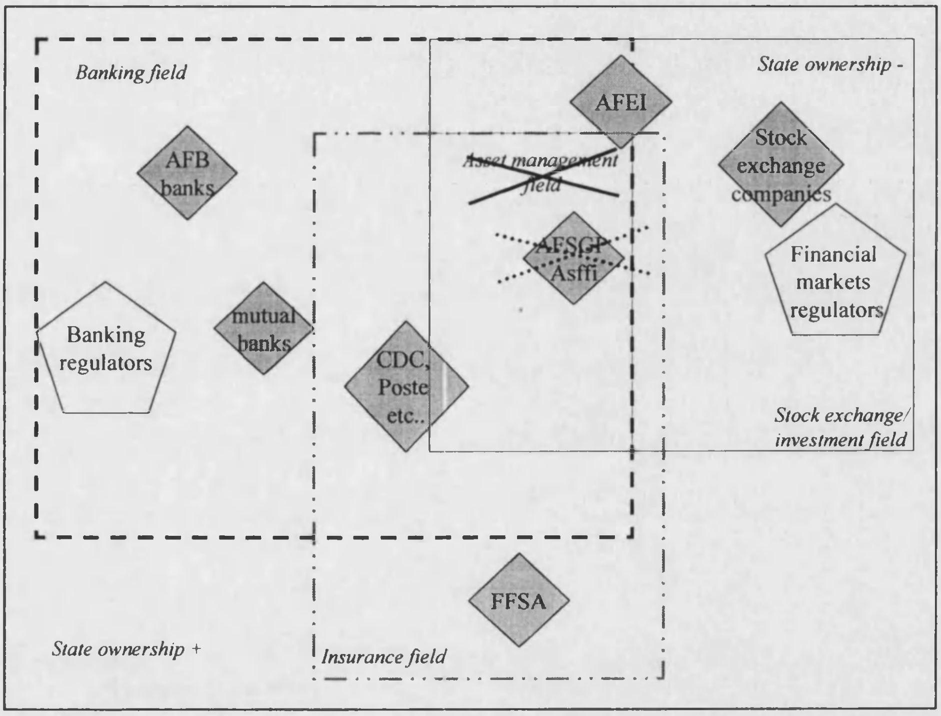
1.1. Entrepreneurial synthesis: French asset management is not formally distinguished from banking or insurance

A striking feature of the French asset management industry of the mid-1980s was that the business was not separate from other financial services and that it formed part of the corporate structures of retail banks and insurance groups. This could be observed both at the professional and the corporate level. As a result, the *entrepreneurial synthesis* consisted in exploiting the retail distribution network to sell mutual funds to private clients, while exploiting privileged relationships with captive clients. Such a strategy was consistent with the institutional structures of the investment industry and with the nature of French business networks.

1.1.1. Industry structure: not an autonomous business

If we refer back to the diagram representing the professional arena, we can say that in the mid-1980s the asset management field did not really exist: there was no recognition that asset management could be an independent business. The three professional fields of banking, insurance and investment were able to offer asset management services and they did not treat asset management as fundamentally different from their core business.

Figure 10: asset management is not recognised as a separate business in the French model



It could be argued that in the mid- and late-1980s asset management had a non-negligible economic weight within financial services. Earlier we pointed out that France was among the world leaders in this market. There were more than 3600 French mutual funds at the end of 1987 worth a total of FF 1,134 billions, a figure equivalent to 25% of France's GNP (AFG-Asffi, 1998; Faugere and Voisin, 1989: 136, 153). Moreover, on a very rough estimate more than 4000 people were directly involved with asset management in 1987: around 500 in the state-owned CDC, CNP, Poste, Tresor and mutual banks, around 1000 in independent companies, around 1500 in retail banks and around 1000 in insurance companies (AFB 1991;

Bonin, 1989: 177-186; Dressen and Roux-Rossi, 1996; Lehman, 1998: 82; Paris-Europlace, 1996). To these figures should be added the people working indirectly for the asset management business, in the support staff of banks and insurance companies. But even though a substantial number of people worked in fund management, little attention was paid to their business and they were not identified as an organised profession, as can be shown briefly.

As *H.*, vice-president of a portfolio management company linked to a retail bank. explains: "In the whole [banking] profession, asset management was something nobody was interested in; it was left to the fund managers". *A.*, CEO of an asset management firm, continues: "There were people who did asset management but no clearly identified asset managers". Admittedly, there were two professional bodies that covered the industry: Asffi (Association des Sociétés Financières et des Fonds d'Investissement) for investment funds, and AFSGP (Association Française des Sociétés de Gestion de Portefeuille) for portfolio management companies. However, their resources were not substantial and their role was more representative than activist. For instance, as a member of AFG-Asffi explained: "the general secretary of Asffi in the mid-1980s was working part-time and there were only four permanent employees for the whole association". Moreover, the private comments of some interviewees described the AFGSP as "gritty" and not at all dynamic. This situation echoes the writings of scholars interested in the study of professions and in particular Abbott (1988: 20), who claims that an occupational group, despite mastering a certain technique and knowledge, can only become a profession if it manages to take control of a certain competency area, what he calls a jurisdiction, by struggling against other occupational groups. In the French model of the mid-1980s, asset management was not a profession; it had no jurisdiction, was operated by many different companies and was integrated within banking and insurance structures.

Fund managers were employed by a variety of financial associations, banks, insurance companies and securities firms, all of which had their well-established professional bodies. Just as the asset management business had no visibility inside financial services, asset management specialists were not in a position to rival banking, insurance or securities firms' associations in order to gain autonomy. However, the fund managers, those who had the core competency in the business, did have a certain professional identity, through the Société Française des Analystes Financiers (SFAF), the French Society of Financial Analysts. But even if the SFAF was successful in promoting the technical skills of its members, it had not established asset management as a distinct business within French financial services. It is therefore important to realise that in the mid-1980s asset management was in a sense invisible, because it had no professional existence; it was not recognised as a business separated from retail banking, insurance or investment banking. This can be seen concretely in the structures of French companies at the time.

1.1.2. Distribution: the focus is on the retail network

The French asset management model was integrated into banking and insurance structures. The *entrepreneurial synthesis* consisted in exploiting distribution capacities (insurance agents or retail banking networks) to sell mass-customised products (mutual funds). This *entrepreneurial synthesis* was a direct consequence of the concept of universal banking, where one financial institution covers the whole range of financial services. As *H.*, who took control of an asset management department in a large bank in 1991, explains:

> In the late 1980s, beginning 1990s, products were distributed by the large networks, bank or insurance with a perspective that was very much collective asset management. One would manage products, one would think in terms of distribution, in a marketing way. The fund manager would scarcely see a client. He would see his computer screen and would not much leave his office.

Both insurers and bankers treated asset management as a support function to their distribution networks. Inside insurance companies, asset management was almost exclusively devoted to mathematical reserves, which cover future payments to clients. The risk covered, as explained by a manager in an insurance company, "used to be a casualty risk: the risk that one dies without leaving enough to one's family". Life insurance was not used as an investment vehicle, as it is today. For that reason, the relation was between a client and his or her insurance agent, in almost the same way as for car insurance, and there was very little discussion about asset management. The same applied to banking. A former CEO of a large retail bank explained that, in his bank, asset management in the 1980s was centralised in Paris. The client, typically a private saver, would only be in touch with the bank's counter or agency, where his advisor would tell him about the portfolio he owned or about specific requirements he had. The idea was that local bank managers would spot those of their clients who had substantial free cash on their accounts and suggest some mutual funds to them. Here again, the client did not recognise asset management as a specific service, because he was only in touch with the bank. In the mid-1980s, there was therefore vertical integration: asset managers were in fact a sort of back-office of the distribution networks. *A.*, CEO of an asset management firm, says it explicitly: "As long as there was vertical integration and an exclusive client relationship with the network, there was no client-supplier relationship". Asset management, in the French model, was entirely devoted to the retail network; it served the objectives of universal banking by offering another type of financial service.

1.1.3. Structure: a department integrated in the bank or insurance company

In the French model, asset management was integrated into the structures of the bank or the insurance company. The chief investment officer of an asset management firm expresses the view that "asset management functions were considered as being support functions, like logistics or maintenance". In other words, fund managers and their departments were treated only as cost centres. They had to deliver financial performances, just like controllers had to deliver budgets, or Information Technology services to write programs. In the concept of the business, in the *entrepreneurial synthesis*, there was no recognition of any specific requirements in terms of client servicing for fund management activities. Consequently asset management was operated inside banks or insurance companies, in small departments with a maximum of 200 employees in the largest market players, as illustrated here:

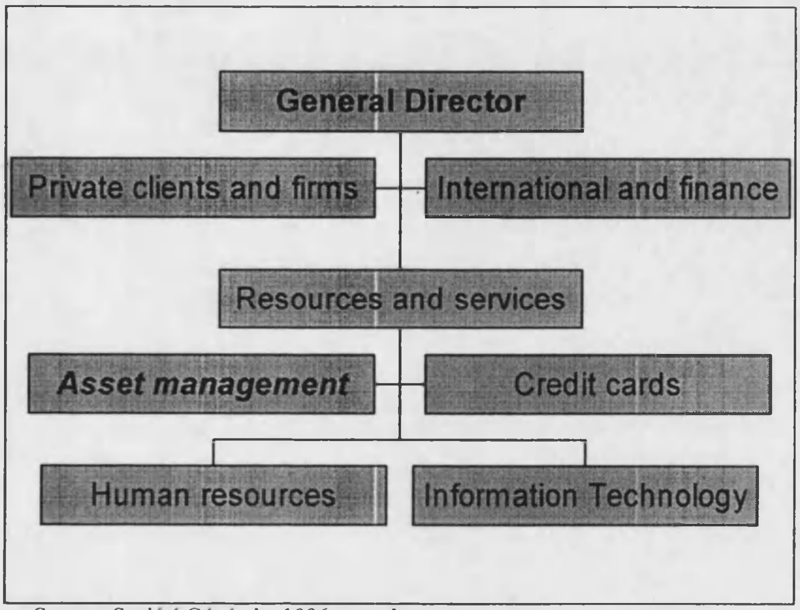
> Asset management was a department in the bank, in general a very small one, with the objective of managing mutual funds for a large audience. In 1985, they were probably 20 fund managers. When you have 6 or 7 mutual funds, you don't need very many people. (Marketing director in a subsidiary of a bank)

> Insurance companies had asset management departments with teams who bought bonds and treasury bonds and did investments. Banks had their asset management activities, which were largely mixed with primary activities and issuing, because they had to manage portfolios for their own balance sheet and issuing operations. (Director of an insurance company)

The concept of fund managers as technicians and not as professionals was typical of the French model: just as asset management was considered as a product, and confused with mutual funds, asset managers were not recognised as having a distinct identity in the company. As a consequence, asset management departments were totally integrated into the structures of the parent company. Strikingly enough, this meant that on occasion the management of funds for third parties was almost mixed with that of the institution's own accounts.

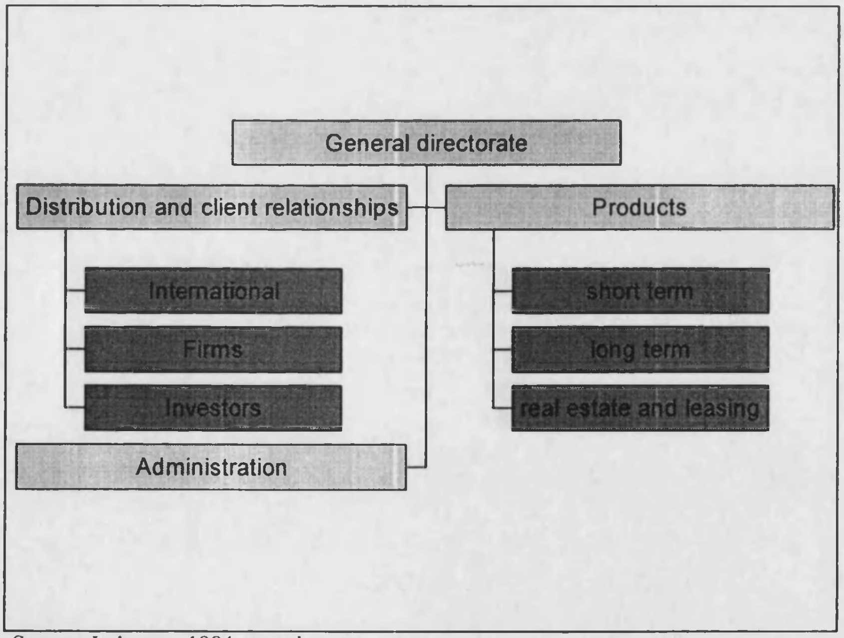
Even in 1996, when Société Générale was the largest manager of mutual funds and was about to create an asset management subsidiary (December 1996), its organisation chart was a good illustration of what we have just said. Asset management was positioned inside the general directorate in charge of resources and services, as shown in the following diagram. It was hence regarded in the same way as human resources or information technology, as a resource and not a business, as a cost and not a profit centre. The organisation chart of Indosuez in 1984 showed that asset management activities were not identified as a distinct service and that they were totally subservient to distribution issues.

Figure 11: Société Générale's organisation chart in 1996



Source: Société Générale, 1996 annual report

Figure 12: Indosuez' organisation chart in 1984



Source: Indosuez, 1984 annual report

1.1.4. A situation consistent with the institutional configuration of the time

We showed in the last chapter that institutional investors in France consisted of pension funds, insurance companies, company saving schemes, charities, governments and firms. In the mid-1980s, there were no company saving schemes in France, nor any relevant demand from charities. Insurance companies would manage their funds themselves, as would state bodies, through the Caisse des Dépots et Consignations. Firms would buy the same products as private investors and manage their cash flow themselves. In some limited cases, France's largest companies would use their bank to manage a specific portfolio, as part of their on-going banking relationships. Consequently, the institutional segment was very limited and rather small in terms of revenues, compared to the retail network. It was made up for the most part of the complementary pension funds, which amounted to FF 80 billions in 1982 (Bonin, 1989: 130). What is interesting in the French model was the lack of competition for these institutional clients.

Each occupational group would have a favoured banking or insurance partner, because of other corporate or historical relationships, and would assign exclusive management of its portfolio to this partner. As *A.*, investment consultant, explains, "Some companies had created a strong position [among complementary pension funds], thanks to the relational dimension". For instance, farmers would use only Crédit Agricole as their asset manager; because of the traditional and historical role of this bank as credit-provider to the farming industry. Some of the largest pension funds were also related to insurers: for instance ANEP, which at the end of 1998 represented almost nine hundred thousand subscribers, had its funds managed in 1988 exclusively by GAN, the state-owned insurer (Bonin, 1989: 130). Other mutual banks would manage the funds of craftsmen and so on. Institutional investors would be dealt with through established corporate networks and not through a mechanism of supply and demand. This peculiar way of doing business was once again very consistent with the pattern of the French model of capitalism, in which corporate networks prevent competition and substitute themselves for other market-based co-operation mechanisms (Morin, 1974 ; Scott, 1997: 156-162). Here we should add something about wealthy individuals, who in the mid-1980s were a non-negligible share of the market (Bergeron, 1990: 97). They were mainly serviced by prestigious independent houses, such as Rothschild, Lazard or NSM, or through the private banking divisions of the large retail banks, in particular Indosuez and Paribas. We will explain later how personal relationships played a key role in the routines of the French asset management model, both for institutional clients and wealthy individuals. So far, it is important to notice that these market segments were not dealt with through competitive market pressures, but were left to established corporate and personal networks.

To conclude, we should say that this *entrepreneurial synthesis* was very favourable to retail banks and insurance, in the institutional environment of the time. The lack of strong competition, and the fact that private clients and institutional investors were essentially captive and could not switch asset managers, made it possible for companies to charge relatively high fees. Moreover, asset management earned money from brokers' commissions,[22] and had the opportunity to "turn the portfolios" if revenues were not good enough. This was especially so because vertical integration enabled banking or insurance groups to mask the fact that some components of the fees, such as brokerage or distribution, would actually be paid to the bank itself. However, the profitability of the French asset management of the mid-1980s was also grounded in an ethical dilemma.

The ethical dilemma arose out of the temptation for banks, and for the State, to put their own financial interests before those of their clients, and to play with their clients' portfolios of securities. The bad example actually came from the French government itself, which in the mid-1980s had a large debt burden and needed constantly to issue government or Treasury bonds to support itself. At times it was difficult to sell these bonds, because the stock exchange market players would not buy the whole issue. *J.,* former CEO of a state-owned financial institution, explained what would happen then:

> Before, when the Treasury issued state bonds, state-owned financial groups had to take a share of it. Sometimes, when the issuing did not work well, Credit Lyonnais, GAN, the CDC were told to take some more than their usual quota. These investments were not so bad, but not necessarily ones we would have done spontaneously.

The problem with these practices was that they could potentially damage the interests of clients, by not providing them with the best possible investment. From an ethical point of view, it was therefore very dubious. And strangely enough, in the French model this was initiated by the State. But the same kind of practices could be found when large retail banks, such as Société Générale or BNP, put into the portfolios of their clients the equities their investment banking department had been unable to sell on the stock exchange. Again, this was ethically questionable. And we have already mentioned the practice of "turning the portfolios" to generate artificial revenues. In the French model, one could say that small investors were often abused by the large groups that managed their funds, and that they had to pay high fees without being able to control the quality of the investments. This being said, the 1987 crash apart the market situation was very largely favourable and the actual results of French mutual funds were very decent, normally superior to 10% a year (Asffi annual report 1991), so that the bad practices were not felt unduly by the clients. Nevertheless, asset management activities were very lucrative for the financial groups, which devoted limited

[22] This corresponds to the "retrocession commission" that stockbrokers would pay to the asset managers that gave them large amount of orders. In some case, they would artificially generate portfolio movements only to receive these commission. This unethical practice has since been banned, , but it could be observed in the mid-1980s.

resources to them and yet earned large profits by taking advantage of their clients. The examination of the *conception of control* will show more precisely how work was organised in the French model of the mid-1980s.

1.2. *Conception of control*: a distinguished craft of fund managers

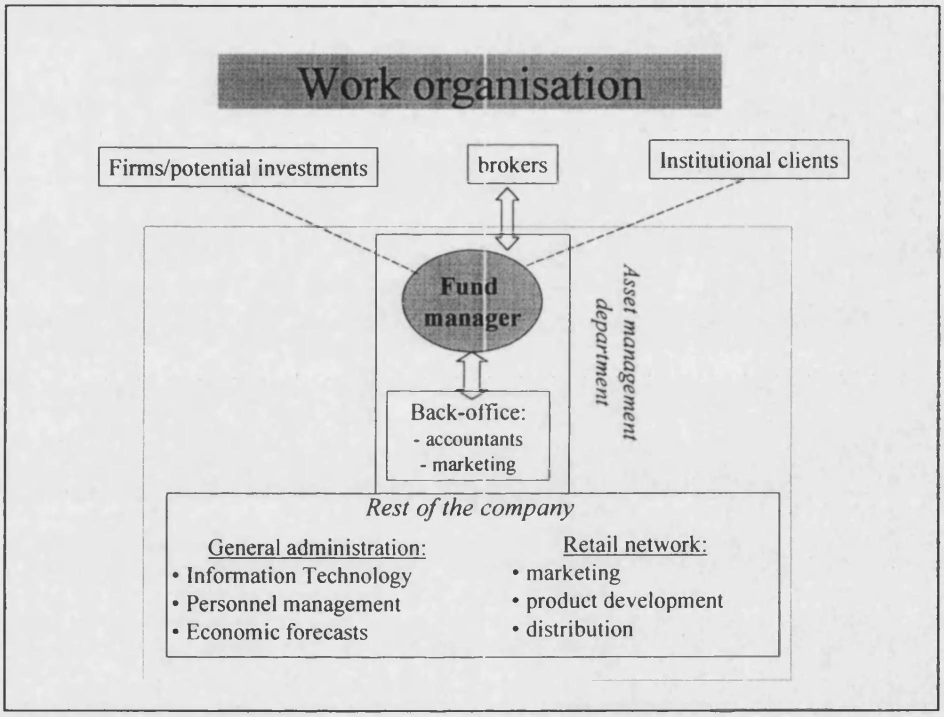
The French model of asset management in the mid-1980s was characterised by the dominant role of the fund managers, who had a very large responsibility and control over their work. Asset management departments, in their organisation, can be compared to Piore and Sabel's craft model (1984: 115) and their values related to the aristocratic concept of honour (D'Iribarne, 1989: 58). But the management of human resources, because of its integration in banking or insurance structures, was largely constrained by old and protective national collective agreements and was close to the public service. This implied a particular *conception of control*, one positing that giving extensive freedom to fund managers would result in the best possible performances.

1.2.1. Organisation and division of labour

In the French model of asset management, one group of employees appeared to dominate the organisation: fund managers. As distinguished craftsmen with a superior knowledge of financial analysis, they supervised the totality of the value chain and followed their own judgement without being bothered by any stringent corporate control.

First, we consider the organisation of the asset management department. This department, integrated within support functions or within the corporate finance headquarters, would be in charge of managing two types of portfolios: mutual funds (SICAV and FCP) and individual client accounts. The division of labour in the department would follow product lines rather than technical ones: in other words, one mutual fund or one account would be allocated personally to one fund manager. At the same time, because asset management was treated as a support function, the department had no specific autonomy in terms of dedicated resources, and had to rely on the administration of the financial group it belonged to. Fund managers supervised individually all aspects of their work. This had key implications for the day-to-day work, because each individual fund manager would be in charge of the totality of the value chain and have responsibility for every aspect of the management of the portfolio. To help fund managers, the department had a back-office, made up of accountants who kept records and followed the liquidation values of the funds, and therefore supervised the administrative and accounting side of the job. Most of the time, there were also some marketing people, in charge of the relation with the retail network. But all other aspects of the business, such as human resources, information technology or economic research, were carried out for the bank or insurance company as a whole, with no acknowledgement of the specific requirements of asset management. In the French model, brokers also had a particular importance, because not only did they take orders in terms of brokerage, but they also supplied financial analysis and research about potential investments. What is however critical is the central role of the fund managers, who operated in a very individual and independent manner. The following diagram gives some impression of this work organisation:

Figure 13: work organisation in the French model of the mid-1980s



Departments in charge of asset management were rather small and fund managers did practically all the work, as this director of an asset management firm explains:

> The fund manager did absolutely everything at *XXX* asset management: accounting of the portfolio since the accountant was reporting to the manager, relationships with investors and institutional clients etc.

As a result, both responsibility and the organisation of the department were very individualistic: each individual fund manager would care about his own funds without commenting any further on the work of his colleagues. There was very little teamwork, and each fund manager was the master of his or her funds. Consequently, their work was very individual: they fought for themselves and tried to beat the market with their own ideas. As this marketing director in a portfolio management company explains:

> 20 years ago, when the oldest generation of fund managers started, there were as many processes as individuals, and individuals were working more or less on

> their own. (..) They did analyses, read information, but it was a series of one-man-shows. They were craftsmen, loners who knew each other well. They were all equals and independents; there was a strong community, especially because they were not numerous. They were not as controlled as today.

This internal organisation was therefore similar to a workshop where craftsmen or artists would work independently of each other and supervise every step of the manufacturing process. The corresponding *conception of control* meant therefore that talented financial professionals, provided they were given the appropriate facilities and freedom, would use their personal knowledge and resources responsibly and obtain the best returns from their funds. As *H.*, fund manager, explains it:

> Before, asset management was a craft. [...] It was enough to say that you had a good fund manager who would make the best securities yield a profit.

In other words, the *conception of control* was simply to let fund managers deliver the best they could. One should also remember that at this time finance was still in its infancy, as underlined by a few interviewees who noticed that in the middle and late 1980s, Modern Portfolio Theory was little known among French financiers.[23] Because France was a credit-based economy, where the stock exchange developed only after 1984, financial markets were a new topic. In the mid-1980s stock exchange professionals, and especially fund managers, were pioneers venturing into a new topic, experimenting with new types of financial products and playing with such new tools as computers and terminals. "Most of them were young, competent, passionate about their work" (Belley, 1987: 191). Some would be called the "Mozarts of finance", because financial matters were largely regarded as esoteric, complex and difficult. It should be remembered that in the middle and late 1980s, financial markets in France were in a peculiar situation. Although inflation was kept to a reasonable level after 1985, following the decision of the government to track German monetary policy, the State had to finance a large debt of more than 3% of GDP, and it did so mainly by issuing Treasury and government bonds (Commissariat General du Plan, 1992: 46-55). There was a favourable differential between bond rates (more than 10%) and inflation rates (around 4%), so that the net return on government bonds was over 6% in the mid-1980s (Faugere and Voisin, 1989: 98). This made life relatively easy for fund managers, because they had at least one investment that would guarantee positive returns at low risk. With funds that would normally be 'diversified', which means incorporating different types of securities (typically money market securities, bonds and equities), it was possible to experiment and to take some risks

[23] The Modern Portfolio Theory was developed by Markowitz (1990 economics Nobel price); it suggests building a model portfolio from the efficiency frontier to exploit the principle of diversification and obtain the best returns from the stock exchange.

without jeopardising overall performance too much. Also, the French market, in contrast to those in America and Britain, did not offer many investment combinations, because of its limited size (Balley, 1987: 196). This favourable context was consistent with an *entrepreneurial synthesis* focusing on distribution issues, in which asset management departments were treated as mere support functions, akin to accounting and logistics, as shown in the organisational structures. Even so it is striking how little hierarchy and control was imposed on fund managers in the French model.

1.2.2. Hierarchy and control

Given that the *conception of control* was to let fund managers do the best they could, we would expect them to be monitored. It appears however that they enjoyed an extensive degree of freedom and that it was almost impossible for anyone to tell them what to do, so that people in the field described the fund managers of the time as "divas", to indicate how difficult it was to manage them. Interestingly, this situation recalls one particular ethos in the French model, what D'Iribarne (1989) calls "the logic of honour".

Admittedly there would be a director in the asset management department, but the organisation was very flat, in the sense that all fund managers would be put on the same level. Each manager had his own funds and would respond individually to his superior, who allowed a degree of large autonomy and would only intervene when a real problem was noticed. A divide existed, however, between fund managers and their support staff, who were very much in a subordinate position, and moreover had almost no chance of becoming fund managers. This hierarchical divide is characteristic of what many authors have pointed out in the French model, the dualism that exists between those with a superior education ("cadres") and those without (Lane, 1989: 149; Littler, 1982: 193; Maurice et al., 1986). The sociological profile of the fund managers is also very interesting. Most of them were from privileged backgrounds, and very often from the nobility, as can be seen from their names: in France, names with a "particle" generally indicate an aristocratic origin. In a list of fund managers, there will be a large proportion of such names as Le Reboulet, de Demandols, de La Porte Du Theil, Brac de la Perriere, etc. There were two main reasons for this: first, until 1979 fund management services were used mostly by privileged families, and therefore people from such families would consider a career in this sector. Second, even though fund management was regarded as only a support function within financial groups, it had a high social status in France because of its level of abstraction, as explained by Boltanski:

> The highest positions are those in which one needs not being aware of labour, labourers, or production but only of such abstractions as commodity and cash flows, high technology processes, and investments. (Boltanski, 1987: 249; quoted by Barsoux and Lawrence, 1997: 69)

The important point was that in this structure the fund manager was not closely monitored: he or she was in charge of the investment decision-making, almost without having to justify any of his or her choices. Fund managers were simply trusted; their day-to-day work was not supervised, as *D.*, director of an asset management firm, explains:

> 15 years ago, there was no way of knowing whether a fund manager was good or not; there was no measure. (..) Micropal, Europerformance did not exist 10 years ago. I remember 10 years ago, I looked for some Europerformance tables, printed more than published, and done by Europerformance, subsidiary of Paribas, and therefore maybe not so objective. Very few people would look at it. Fund managers were not controlled ten years ago. They had experience. Like other support functions, it is not because they were not controlled that they were doing many errors, but they were not controlled on a day-to-day basis.

The control was in fact *a posteriori*, in terms of performance, in comparison to the rest of the fund managers. Financial performance was the only indicator that was really looked at in the mid-1980s, but it was measured in absolute terms, as total financial return and not against a benchmark nor in terms of risk. Every year, some newspapers published their rankings for the best performing funds and this fuelled competition among fund managers to win the trophies. Admittedly, if someone had under-performed systematically in comparison with his colleagues, a crisis meeting would take place with his boss, and sanctions might result. But the ethos of the business was that fund managers, because they were "cadres" and had a special status, would put their honour in the balance, take their risks, make their choices and secure good returns for the company that employed them. This situation recalls the analysis of D'Iribarne, who recognised in the "logic of honour" the foundation of French management style. In his understanding, French managers fulfil their duties and do their work properly, because they want to maintain their rank, because they are proud of their social function and are afraid of damaging their reputation (D'Iribarne, 1989: 59). In our case, this reading is all the more convincing because the social origins of the fund managers would incline them to lean towards aristocratic values, especially given the limited size of the investment community. However, the logic of honour in the specific case of the French asset management industry also had a consequence for the structure of power within the *conception of control*.

The lack of precise performance measurement meant that fund managers had a large degree of autonomy in their day-to-day work. But the persons we interviewed commented that it was more than just autonomy, and that at the time fund managers had a tendency to resist any corporate control. More than ten people used the word "diva" to portray them. By that, they meant that fund managers had an almost emotional relation to their job, and could not take any criticism. It was matter of pride that no-one could tell them whether they had made the right investment or not. They resented any disagreement, because it undermined a blind trust in their capacities, and sometimes they reacted violently to any query from their superiors about the justifications they had given. In fact, the fund managers were not in the habit of offering justifications, as we will see later. Being highly individualistic, proud and convinced that they were right about market trends, they would fight for their convictions. Final performance by their funds and rankings in the finance media were trophies for their own glory. As an information technology consultant explained to us, fund managers evolved in a macho world where they had to prove themselves against colleagues and competitors. Corporate control had little impact on their decision-making and they would resist any intrusion in their work. The power configuration can therefore be best presented as one in which fund managers dominate, because of this lack of corporate control, as illustrated in the next diagram. And according to some professionals, this way of doing things was rather pleasant and enjoyable, as this director in an asset management firms comments:

> There was no benchmark, no performance measurement. For a fund manager, it is the best possible world. You have plenty of information, you buy, you sell, you meet presidents of companies, you are invited all the time by people from the financial market. Nothing to complain about!

Here we can see how the internal coherence of the French model is well expressed in the *conception of control*: the perceived best way to organise gives a primacy to fund managers who end up being a dominant coalition. Even though they may have dominated their department, in the French model of the mid-1980s the fund managers, in terms of human resource management, had no special treatment, no personalised pay. They were simply employees of banks or insurance companies, as we can see now.

1.2.3. Human resource management

Human resource management in the French asset management model of the mid-1980s was the direct consequence of the vertical integration of this business within banking and insurance groups. Fund managers and their support staff had conditions similar to those of other bank or insurance employees.

Asset management departments, because they were vertically integrated in bank or insurance structures, had to follow the rules of their collective agreements. For instance, bank employees were managed according to a national collective agreement of August 20, 1952, which remained almost unchanged until it was challenged in 1999 by bank employers. It is currently under re-negotiation. In these agreements the rules look like those of a public service, as this member of AFB, the French Banking Association, explains:

> Banks' counters often gave the impression to be like national bureaucracy. Work organisation illustrates this similarity. For instance, the collective agreement looks as if it had been copied from the public service. Employees who were hired in the 70s had the feeling they went into public administration, with a job for the rest of their life, and similar fringe benefits.

As a result, the management of human resources is characterised by constraining rules, by limited flexibility, by the primacy of the internal labour market and by a rather favourable treatment of the employees. These aspects are extensively documented in the literature on the French labour market and industrial relations (Crouch, 1992; Crozier, 1963; Lane, 1989, 1995; Lawrence and Barsoux, 1997; Maurice et al., 1982, 1986; O'Reilly, 1994, 1998; Syzman, 1983) but it is important to notice that the French asset management industry was particularly in line with them, as we now briefly outline. We base our analysis here on the banking collective agreement, which is the most representative, but the same patterns are to be found in the insurance companies.

The first crucial element in the collective agreement is that jobs are very precisely classified, and that this classification is expressed using a particular coefficient called the 'basis point' (*point de base*). Each job is allocated a certain number of points, for instance a position of simple clerk has 300 points (AFB, 1994: 35) while a management position has 1000 points (44). For that reason, the career of the employees in the banking sector is a process by which they acquire points to get promotion. Furthermore, the basis point is also used to determine levels of pay: in 1994, the basis point was valued at FF 13,777 after tax per month for normal working hours of 39 hours per week. It should already be clear how constraining the whole framework can be, even though it is probably very egalitarian: no matter how well they perform, all individuals with the same number of points will receive exactly the same salary. This is all the more so because any bonuses and premiums are not individual, but paid to all employees (art 53a). The only individualised additional pay may come from overtime. In terms of pay, however, two further elements play a key role.

The first is a diploma: a diploma recognised by the State gives a right to extra basis points. For instance a Baccalauréat (the equivalent of A-levels) gives 30 points, while a Doctorate or a diploma from one of France's *Grande Ecoles* gives 40 points. In this system, the banking sector has created its own training courses, provided by the Banking Technical Institute and the Centre for Higher Banking Studies, the diploma of which is valued at 45 points. These specific institutes are also used to promote bank employees, who have the opportunity in their career to follow supplementary training. Pay, career and training are therefore intimately linked in the French model. The second element in pay considerations is seniority: one year in the bank gives 1% more pay up to a limit of 35% (AFB, 1994: 44). In addition to these two elements, diploma and seniority, some amusing benefits also exist, such as a shoe premium of FF 416 for cashiers or an underground floor premium of FF 1634.

In summary, it must be admitted that the whole structure is very rigid and impersonal. But there were notable advantages for employees in the asset management business. Working conditions were very protective, with a good pension, congenial working hours and holidays, and more importantly job security. Job changes required the agreement of the employee. It was very difficult and costly for the bank to impose redundancies, which made them almost impossible, apart from collective redundancies.[24] Asset management employees, just like any other employees, were included in these career structures in the French model of the mid-1980s, and they had their careers managed along with their basis points. This meant that they would spend whole career in the same institution: moving from one financial institution to another was extremely rare, because it would mean losing part of one's benefits in the career progression. With the collective agreement being national, the same positions would receive the same pay whatever the company, and switching financial institutions could only damage one's career. All in all, human resource management in asset management institutions was therefore very rigid and codified, with little scope for hire-and-fire policies or individual bonuses.

In our description of the French model so far, we have made little mention of the third category of players: independent asset managers. Admittedly, they were not integrated in banking or insurance groups, because of their independence. However, the organisation of their work was very similar to that already outlined, with fund managers at the core of the value chain and supervising most operations. In terms of human resource management, the independents were rather small entities, with less than one hundred employees for all their operations, which included stock-broking and private advisory banking as well as fund management. Their focus on wealthy individuals meant that they took extra care in terms of public relations and service, and also that family connections were a pre-requisite for being recruited. Human resource management was very influenced by the legal structure of these companies, which were often partnerships. A limited number of employees were groomed and could eventually achieve partnership, after a number of years. But there was a large divide between the partners, who enjoyed large revenues, and the employees, who had salaries only

[24] It had to prove the insufficient physical, intellectual or professional abilities of the employee, which could even be contested with the support of trade unions, and had to notify it to a legal authority (Commission Régionale Paritaire). Moreover, it had to pay substantial compensation, equivalent to 18 months salary (art.58).

marginally higher than those of their counterparts in the retail banks. Admittedly, some interviewees explained that the variable part of remuneration was in general higher among independent players. But this was to help small companies adjust to variations in their revenues, not to attract people from the labour market. The *conception of control* was therefore very paternalistic, with the company being almost a family or a clan where members would be devoted to the glory of their chiefs' banking dynasty (Bergeron, 1991: 189). In terms of career perspectives, employees often had no choice but to wait until they could be promoted. Because of the limited number of companies, their only alternative career path was to join a banking group: leaving Rothschild to join Worms or NSM was not well regarded, since it meant treason (Lottman, 1995: 125) and therefore social disgrace.

Now that we have specified the *conception of control* in the French model of asset management of the mid-1980s, it remains to tackle its *organisational routines*.

1.3. Organisational routines

In this last part of the analysis of the French model of asset management in the mid-1980s, we will focus on the *organisational routines* that characterised the industry at the time. We will see that they were consistent with the other dimensions just described and that they were appropriate to a situation in which fund managers, as craftsmen, were the depository of knowledge and did not rely on any organisational memory. Routines were based on personal skills as well as on relations within the stock exchange community. This went together with customer relationships based on personal trust and social protocols.

1.3.1. Use of financial information and information technology

In the French model, *organisational routines* were not very codified and they relied exclusively on the personal skills and capacities of the fund managers, and on the circulation of information through the stock exchange community.

The central role of fund managers in the organisation just described had an important consequence for the *organisational routines*. The typical day of the fund manager was hectic. On his desk, there were one or two computer terminals, displaying news from around the globe and several hundred listed companies, plus one or two telephones that would ring very often because stockbrokers would phone to suggest buying or selling opportunities. As each fund manager was individually in charge of one fund or portfolio, and as there was not much direct supervision, the actual tasks performed by the fund managers were not codified by their organisation, as *A.* underlines:

> The way people worked had no importance. One would care about performances but not at all about the way it was achieved.

In other words, *organisational routines* were not made explicit but were kept in the hands of the fund managers, who would perform their tasks according to their own expertise and not in line with some established corporate practices. Fund managers worked therefore very much in the way Piore and Sabel defined the craft model, as "a community of equals able to perform an endless variety of tasks by the application of common principles mastered through long experience" (1982: 115). The skilled fund manager was the one able to solve investment problems by making the right choice of securities at the right time. However, this did not imply any need to refer to mathematical models, or to any particular finance algorithm of the sort found in academic papers. This is the criticism expressed by *A*, when he continues and describe the practice of the fund managers at the time:

> I publicly said several times that asset management was operated in a romantic fashion. It is true that there was no serious doctrine to manage the work of the fund managers. Asset management was dominated by people from the SFAF financial analysts and from stock exchange people who had done some financial analysis. They had a feeling, an affection for some securities; you would like or dislike a security; you would sell or buy a share because you were fond of it.

This "romantic" approach, based on intuition and personal expertise more than on systematic and quasi-scientific argumentation, was at the core of the *organisational routines* in the French model. "They [fund managers] always had a relevant explanation about what was happening in the stock exchange, without noticing that they were only theorising *ex post*, the effects of their own policies. Their *doxa* resulted from their *praxis*" (Balley, 1987: 194). To perform their job, fund managers used a mix of techniques, which mostly derived from fundamental economic analysis and from corporate finance. Fundamental analysis, also called the top-down approach, consists in using macro-economic indices and a review of the political and economic situation to forecast general trends in sectors of activities and in countries. This then leads to the allocation of the funds in the portfolio to preferred blocks of securities. The other practice, which was less widespread in France, was the bottom-up approach. This time, financial analysis of individual companies was the first step. After a number of analyses, those equities regarded as undervalued by the market were selected and put in the portfolio. Because there was no uniform corporate doctrine, each individual had his preferred methods. But in any case, the basic knowledge was always financial analysis, which explains why the role of the SFAF (French Society of Financial Analysts) was so prominent. It provided the fundamental skills that the fund managers would apply individually, following their personal experience and expertise.[25] In the French model, these financial skills were the foundations of the routines used by fund managers. But they would use them in the manner of craftsmen, because asset management companies had not developed systematic procedures.

The second element in the model is the prominent role of the stock exchange community, as a repository of knowledge and as a source of inspiration. Information was constantly circulating between fund managers, stockbrokers and the community of stock exchange experts at large. To stand up to the constant pressure imposed on them individually, and to deal with the mass of information coming from analysts, economic research and news providers each fund manager would create and exploit a network of informers (Balley, 1987: 194). This was meant to exchange tips and news, to test different ideas and intuitions and to support colleagues, so that Balley qualifies the resulting networks as a Freemasonry of fund managers (1987: 194). In the French model, fund managers constituted a strong community; they got to know each other around the Paris stock exchange and at company presentations and brokers' lunches, for instance. A former employee of Europerformance notes that "they were craftsmen, solitary people who knew each other well. They were all equals and independents; there was a strong community, especially because they were not numerous." *Organisational routines* were therefore paradoxically not inside organisations, but largely outside, in these informal networks where fund managers, stockbrokers and analysts would rely more on their intuitions than on mathematical regressions and predict the moves of the stock exchange to try and obtain good returns. And despite this lack of systematic procedures, their overall performance shows that the fund managers were not doing such a bad job. A study in 1988 by Asffi of the performances of the Monory-Sicav, the mutual funds that had most assets under management in the mid-1980s, showed that their performances over the period 1980-1987 were between +168% and +249%, and over the period 1985-1987 between +30% and +56%. While the CAC40 Paris Stock Exchange Index lost 29.4% in 1987, these Sicav lost on average only 16.7% (*La Revue Banque* 489: 1187). This leads us to consider another aspect of *organisational routines*, customer relationships.

[25] Created in 1961, the SFAF supports the improvement of financial analysis techniques and the development of quality economic and financial information. SFAF members are all investment specialists. The association is also in charge of a training programme, which leads to a diploma, the CFAF (Centre Français d'Analyse financière). This diploma is the only one in France about financial analysis and it is exclusively aimed at employees of financial institutions, who are selected before they join.

1.3.2. Relationships with customers and business partners

The presentation of the French model would not be complete without looking at the relationships between fund managers and their clients and suppliers. And what we find in these routines is a pre-eminence of personal ties and connections.

In our previous analyses we underlined the importance of networks: corporate networks between financial groups and institutional clients, and professional networks among fund managers. These networks had a particular consequence for the conduct of business in the French asset management model of the mid-1980s: customer relationships were based on personal trust, in a rather blind manner and without tight control mechanisms. The first aspect of the commercial relation is that fund managers were not given precise instructions regarding how they should manage portfolios. In fact, clients would simply trust their fund manager. The only requirement expressed in legal jurisprudence and generally mentioned by clients was to follow a prudent-man-rule. This principle implicitly recognises that one has to trust the finance professional, who is the most likely to know what to do. But such a principle is vague. It leaves a great deal of autonomy to the fund manager. Many observers confirm the lack of a precise investment strategy on the part of clients. For instance, these two directors explain that demand was rather primitive. Clients did not use precisely defined mandates, with pre-requisites in terms of benchmark, risk management or securities allocation; they would just give their money to a person they trusted, without asking supplementary questions about how he or she would manage their funds. This is how this CEO describes the situation at the time:

> When I arrived at XXX in 1991, people did not have a clue about the weighting of their portfolios, and were not worried about some securities having a very high weighting.[26] They would not care about the differential [to the benchmark]. There was no reference. In the contract made with the client, the notion of benchmark was unknown: the contract was 'do whatever is best'. [They would say] You are nice, the wine you chose was fine, you took me to a nice restaurant, it seems therefore justified that I give you 500 billions francs to manage.

What is noticeable in the French model, apart from the culinary experience, which we will tackle soon, is the relatively blind trust that characterises customer relationships. Two considerations explain this. First, clients had in general little expertise in financial markets. French pension funds have often been run by former trade unionists or by retired managers, who lacked the expertise to assess their fund managers. Private investors had no strong finance background either, and finally even expert investors had not developed strong Asset and Liability Management (ALM) competencies, which meant they could not precisely define

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[26] A very high weighting would contradict the diversification rule and therefore indicate a higher risk level.

their requirements. Secondly, customer relationships were embedded in personal networks. Institutional investors had some corporate links with their asset manager, which was often their bank or insurer. Wealthy individuals would be served by some fund managers or private bankers who they would know either personally or indirectly through family connections. Moreover, the whole investment community was fairly small; altogether barely several thousand people, which meant that trust could be institutionalised within personal networks. This resulted in these peculiar routines, where asset management companies would take the money of their clients without stringent demands.

On the other hand, business relationships were also very much based on personal knowledge. In particular, there was a strong connection between fund managers and stockbrokers. We have already underlined the fact that brokers would supply information to fund managers. Traditionally, in exchange for good advice, the fund manager would give his orders to the broker who had given him the tip. And reciprocally, as we already said, the fund manager would receive a commission for a large amount of such orders. Is it surprising then to see that in the mid-1980s brokers and fund managers had developed personal friendships? In fact, fund managers used a limited number of brokers, whom they would contact systematically. In return, brokers would be keen on developing "friendly" relationships with fund managers, by way of invitations to lunch, travel or other entertainment. The investment profession being a small world, where people could socialise easily, the game of building friendly relationship was extremely important in securing revenues for the company. And this is where the food dimension took on a particular importance in the French model.

Brokers spent most of their time phoning fund managers trying to sell them securities or giving them advice and recommendations. Fund managers tried to make connections with institutional investors to secure future contracts. All this was achieved to a large extent through invitations to good meals, social events, cocktail parties or short holiday breaks. And the ability to reserve a table at Taillevant or make the appropriate choice from a wine list were real competitive advantages in this context. This is how *M.*, now marketing director, remembers the good old days:

> In the past, people had a career through lunches and holidays. There was a person on the financial market known as SICAV-glutton ('Sicav-bouffe'), because he would earn new clients by systematically taking them to nice restaurants.

This illustrates how the rules of the game and the corresponding *organisational routines* were not so much a rational measurement of the asset management service as a more complex relationship that mixed trust with personal contacts and friendship.

In conclusion, we can say that the French model of asset management in the mid-1980s presented a coherent picture. Integrated within banking and insurance structures, and left to the fund managers, it was based on personal networks and craft-like abilities. In other words, the patterns characterising our three analytical layers (*entrepreneurial synthesis*, *conception of control* and *organisational routines*) fit together remarkably well, and make clear the internal coherence of the model. Moreover, we have shown that on each level, the behaviour and organisation of asset management firms were closely tied to their societal and institutional context, including among other things: the pension system and the national investment structures, state debt and state involvement in the financial sector, national collective agreements and the logic of honour, the distribution of financial expertise, and corporate and personal networks. Each layer not only goes together with the other two but also sheds some light on the dynamic processes by which firms and their environment constituted one another in reproduction. Our framework, by creating some functional stratification inside the firm, has revealed the duality of structure (Giddens, 1979: 128) and grasped some elements in the structuration of organisational practices. The fact that we could produce a consistent model portraying in such detail French asset management in the mid-1980s is a positive outcome from the use of our theoretical framework. It may confirm that it is a valid analytical tool for the purpose of fieldwork-based research. The analysis of the Anglo-Saxon asset management model will be the occasion to establish whether this holds true. We will see that the situation in Anglo-Saxon countries offers a radically different picture.

2. The Anglo-Saxon model

Having analysed the French model of the mid-1980s, we now contrast it with its Anglo-Saxon counterpart, which, as we underlined in the second chapter, might have been expected to influence the transformation of the French asset management industry. We will start by a clarification of what we intend by Anglo-Saxon model, in relation to particular developments in the financial markets in the United States of America and in Great Britain. This will lead to a closer examination of the structures and organisation of companies in the Anglo-Saxon model. We will notice a clear contrast with the French situation. To study the Anglo-Saxon model, we will once again use our theoretical framework, which produces the following summary:

Table 9: the Anglo-Saxon asset management model

Layer of analysis	Key characteristics of firms
Entrepreneurial synthesis	- asset management is a true business and should be treated as an industry where products are developed for targeted segments - align a marketing positioning with an investment philosophy and an organisation structure
Conception of control	- a rigorous investment process is the key to regularly good performances - fund managers should be controlled through risk management and performance measurement - human resource management is flexible and performance-related; it uses the external labour market
Routines	- corporate rules and financial models prevail over individual decisions - the logic of contract dominates client-relationship, so that selection procedures are prominent

2.1. About the Anglo-Saxon model

The expression "Anglo-Saxon model" has become a catch-phrase in continental Europe - especially in France- in particular since it was given widespread circulation by Michel Albert, a former chief executive of the insurance group AGF, in his book *Capitalism against Capitalism.* In the asset management field, it is possible to categorise an Anglo-Saxon model, a way of organising that corresponds to the practices of American and British (and to a lesser extent Canadian and Australian) firms. Our aim is here to present one ideal-type that is characteristic of these countries and fits the understanding French players have of it. In other words, we do not claim to portray here all types of firms in Britain or America, but rather the most typical ones: those that best reflect the institutional patterns of the Anglo-Saxon business systems. However, to give more depth to our analysis, it may be useful to present the Anglo-Saxon model within some historical context.

2.1.1. Common institutional features

Even if differences exist between British and American companies, their asset management industries show similar features in terms of institutional and organisational configurations. The purpose of the following lines is to provide some justification for the use of the term 'Anglo-Saxon model'. The term is based on the commonalities between the Anglo-Saxon countries, in terms of the financial system. But it also follows from the fact that the same typical patterns were adopted by asset management firms in America and later in the UK, in relation to specific historical developments.

Anglo-Saxon countries, from the start, shared a number of patterns, in particular in the way their financial markets and stock exchange professions have been organised. First of all, in contrast to the French model of the mid-1980s, the Stock Exchange has been the largest source of financing for Anglo-American companies. “Financial markets were invented by the Anglo-Saxons,” the CEO of a French asset management firm reminds us. The origins of the London Stock Exchange go back to the coffee-houses of 17th century London, where people wishing to invest or raise money bought and sold shares in joint-stock companies. The Muscovy Company, the world’s first joint-stock company, was founded in London in 1553. Large and deep securities markets are the first key characteristic of the Anglo-American model: they support a vast asset management industry, and give it important investment possibilities.

A second important dimension in the model is the role of what can be called ‘finance capital’: disorganised networks of institutional investors. This corresponds to numerous large financial institutions, such as banks, insurance companies and pension funds, which hold powerful positions within the business world but do not exercise direct control over particular dependent enterprises (Scott, 1997: 139). This category of actors represents vital customers for asset management companies, because of the important volumes of cash they have to invest. This is related to the pension system in these countries, individual capital planning, which generates huge amounts of investment and requires specific asset management services. Apart from these critical institutional similarities, some historical events have led asset management in the US and in Britain to develop along similar lines.

2.1.2. Historical developments

The second justification for the use of the term ‘Anglo-Saxon model’ results from the historical events that made it possible for both Wall Street and London to develop the same particular ways of organising their asset management industry, even before the mid-1980s. The origins of the Anglo-Saxon model are indeed to be found in the US, with the crisis of 1974 and in the introduction of a new law for pension funding, the ERISA law. However, they can also be traced to Great Britain, with Big Bang and the surrounding transformation of the London financial system.

In 1974, the US fund management industry experienced considerable difficulties: while stocks had been booming for over two decades on the back of economic growth and of the Bretton

Woods exchange rates system, market indexes suddenly reversed and provoked substantial losses in portfolios. This required practitioners to change their ways and to develop new techniques to control risks better. This also triggered a reaction among trade unions and politicians, who realised the danger of such a situation for pensioners, who relied on private pension funds that lacked capitalisation and might have become unable to pay the rent. The result was the voting of a new law on pension funding, the ERISA law. It had a decisive impact on the structure of the asset management industry of the time and catalysed some of the key properties of the Anglo-Saxon model (Montagne, 2000). The law specified that pension funds had as a unique objective the payment of a return to their members, and it stipulated that any investment by a pension fund should be selected on the basis of its specific return, with an objective of risk diversification, and that it should be in line with market practices. In other words, the law oriented asset management towards conformity with a benchmark, established by the fund managers community, through the notion of the 'prudent expert', which superseded the 'prudent man rule' (the one observed for instance in the French model). Moreover ERISA gave some individual rights to the members of the pension funds: they were authorised to sue the fund, in the event that they believed their interests not well served. The act therefore increased the judicial resolution of disputes (litigation), at the expense of procedures based on collective agreement (Clark, 1993). For these reasons, and as shown for instance by Montagne (2000), ERISA had an important impact on the structure of the US asset management industry, which ended up displaying the properties we describe here as the Anglo-Saxon model. In other words, and even if this consideration is not at the core of the present study, it is important to notice that this model too has an origin that can be related to specific historical events. This is all the more important as the Anglo-Saxon model as we define it was then adopted in the United Kingdom, at the beginning of the 1980s, in connection with the transformations involved in Big Bang.

As explained for instance by Augar (2000), the market players in the City of London changed their ways of doing business fairly swiftly and adopted the organisational practices of their American competitors. Between the years 1980 and 1986, the British gentlemanly capital of the City was replaced by new corporate rules and by a new ethos (Augar, 2000: 18-52), which corresponds to what we call here the Anglo-Saxon model. But before looking more carefully at these corporate structures, it is worth noticing that this model is based on certain hypotheses in financial theory.

2.1.3. Academic finance is at the core of the model

When we look closely at American asset management, we see that almost 25% of the market consists of quantitative asset management, a technique that uses mathematical models to build efficient portfolios that duplicate the evolution of financial markets. Quantitative asset management is also called passive management, because it does not try to outperform the designated benchmarks: it uses Markowitz and CAPM (Capital Asset Pricing Model) theories in order to build portfolios that are linked to model portfolios, with a level of risk defined for the client. "Passive managers generally act as if the security markets are relatively efficient" (Sharpe, Alexander and Bailey, 1999). And this hypothesis, that markets are relatively efficient, is in fact fundamental in any attempt to understand the Anglo-Saxon model. The improbable origins of modern Wall Street, as told by Peter Bernstein (1992), concern the message brought to fund managers by a tiny contingent of scholars such as Markowitz, Tobin, Merton, Sharpe, Black and Scholes: the message that there can be no reward without risk, and the story of how they developed a number of abstract methods to manage capital. The coherence of the Anglo-Saxon ideal-type is indeed to be found in the reference to certain theories of finance. Two elements, in particular, give it some of its distinctive techniques and organisational peculiarities.

The first element is the recognition that it is difficult to beat the market, and that it is therefore not credible to promise high returns. The efficiency hypothesis results from Kendall's demonstration of 1953, that there is no correlation between yesterday's prices and today's. Market efficiency is a theory claiming that market prices reflect the knowledge and expectations of all investors. Those who adhere to the efficiency theory say that it is impossible to beat the market. The CEO of a French asset management firm summarises:

> In the US, people largely know that financial markets are hard to beat. Therefore, to avoid poor performances, it is necessary to develop a series of tools that enable measurement of how far the portfolio is from its reference benchmark, and how, with which kind of processes, performance will be managed. The American client, who knows that performance is random, is interested in the asset managers who can explain their investment process and what they do.

In other words, and as opposed to the French model, asset management's objective in the Anglo-Saxon model is not to reach high returns: it is to limit poor results in comparison with the market. This is a fundamental stance, because it gives different perspectives to investors, who in the Anglo-American system do not try to attain unreasonable rates of return, if the risk premium is not bearable.

Apart from market efficiency, the second important financial theory to influence the Anglo-Saxon model was that of diversification. Diversification means the spreading of risk by putting assets in several categories of investment. Its advantage is to reduce risk for a given level of return, or reciprocally to improve return for a given level of risk (Vernimmen, 1989: 37). This principle is at the core of investors' decision-making, and in particular in their demands for explanations and information concerning how and why their money is invested. As an Anglo-Saxon consultant told us: "We have learned that diversification is the governing idea of regularity and future performances". This explains why institutional investors in the US look for generalised diversification: between companies, between sectors, between countries and between asset managers.

We should have provided enough justification for the use of the term 'Anglo-Saxon model', as well as enough background information to enable us to understand its coherence. It is now possible to tackle more precisely its key characteristics, using once again our theoretical framework.

2.2. Entrepreneurial synthesis: an industry

In our analysis of the French model, we showed that the asset management business was totally unnoticed in the mid-1980s. In Anglo-Saxon countries, the situation was very different: this business had been recognised and clearly identified for a long time. Not only were customers more precisely targeted, but so also were the strategies of the firms related to generic investment styles. This resulted in corporate structures that were independent of retail banking groups, and in an *entrepreneurial synthesis* that aligned any given positioning with an investment philosophy and an organisational structure.

2.2.1. Corporate structures: an autonomous profession

Asset management has a long tradition in Anglo-Saxon countries. The firm of Schroders, still market leader in Great Britain, launched its first investment trust in 1922. And this early development was linked to a concept of asset management different from that in the French industry.

In 1924 the American Henry S. Sturgis wrote a book called *Investment: A New Profession*, in which he outlined a set of techniques designed to improve the quality of investment activities. He called for the development of autonomous professionals devoted entirely to this business. Unlike the French model, in which asset management was not visible, in which it was integrated into the structures of banking or insurance, this business had a real identity in the Anglo-Saxon model. An excerpt from the Englishman Hargreaves Parkinson's book of 1932, *Scientific Investment*, shows a concept of asset management as distinct from other services:

> It is high time that investment assumed an independent existence, and began to build up its own system of general principles, based on scientific analysis.

But it was not only among commentators that this autonomy of the asset management business could be observed in Anglo-Saxon countries. Asset management also developed early as a profession, with its specific business techniques and code of conduct. The Investment Bankers Association of America was founded in New York City in 1912, and soon had a division dealing with asset management. The Association of Unit Trusts and Investment Funds, the trade body representing the UK unit trust and mutual funds industry, was formed in 1959. Obviously, the autonomy of asset management from retail banking and insurance in the US owes much to the Glass-Steagall act of 1933, which separated credit and investment activities. In consequence, asset management was created as a specific profession, as one of the investment services with its defined professional space, distinct from banking and insurance. This happened gradually after World War II, at a time when financial markets were growing and thus helped the investment industry to become more relevant to the economy. In the US, the Financial Analysts Federation (FAF) was established in 1947 as a service organisation for investment professionals. In 1959 the Institute of Chartered Financial Analysts (ICFA) was founded to examine candidates for the qualification of Chartered Financial Analyst. These associations, which merged in 1990 to create the Association of Investment Management and Research (AIMR), develop not only training programmes, but also sets of standards for the investment professions, such as performance measurement standards, ethical rules and accounting methods. This explains why investment companies emerged in Anglo-Saxon countries as independent entities, as *A.,* CEO of a French asset management firm with stakes in the UK, told us: "In the mid 80s, there was not any asset management firm in the UK that was controlled by a bank. Almost all companies were independent." This ability of asset management companies to structure their professional space makes the Anglo-Saxon model coherent, with a set of standards and professional conduct that are well codified. As we will see later, this goes together with customer relationships that are very formalised and with normalised *organisational routines*. Consequently, it is not surprising to find that in the Anglo-Saxon model asset management companies are independent and very often publicly listed, and that some of them are indeed large multinationals. For instance, AMVESCAP, "one of the world's largest independent fund management companies", is a listed company, "has operations in 25 countries and serves clients in over 100 countries worldwide" (1999 Amvescap PLC Annual Report). Both this autonomy and the size of the market in Anglo-Saxon countries have important consequences for the *entrepreneurial synthesis* in the model.

2.2.2. An industry in which positioning, investment philosophy and process are combined

Anglo-Saxon countries together represent more than 50% of the world's investment management market. Their asset management business is organised as an industry: both the offer and the demand are clearly identified. Under the influence of intermediaries, such as investment consultants or financial advisors, the offer is structured and very precisely segmented.

A precise terminology is characteristic of the Anglo-Saxon model, in which asset managers have to position themselves in respect to the asset category, the sector. They also have to define the investment style they specialise in: each product or service is adapted to identified client requirements. Consequently, the market is highly structured and the products precisely defined, as can be seen from the American classification of Mutual Funds, which are categorised in terms of each of the following considerations:

- the investment philosophy: passive, active, guaranteed or alternative (i.e. through hedging, options...)
- the type of investment strategy: growth (invest in equities with growth perspectives) or value (invest in equities with recurrent profits or undervalued by the market)
- the type of securities: equities, fixed income or cash
- the type of companies: small cap (small capitalisation), medium cap or large cap

The following table illustrates how these elements combine to classify US mutual funds:

Table 10: US mutual funds classification in 1997

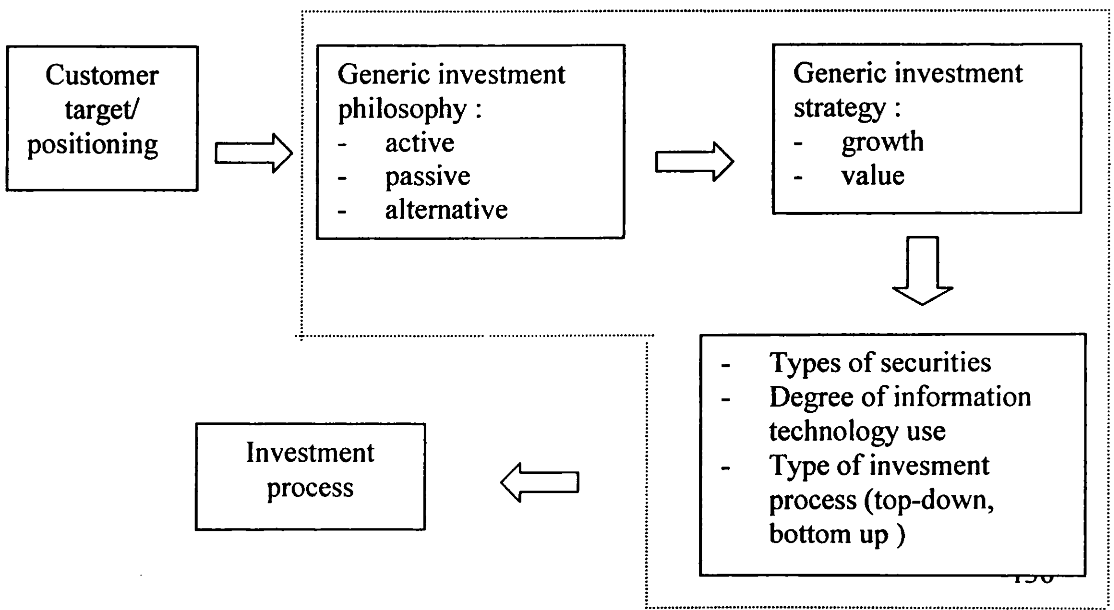
Type of fund	Number of funds	% of total
Common stock		
Maximum capital gain	180	2.1
Small company growth	491	3.4
International equity	995	8.0
Long-term growth	1153	15.8
Growth and current income	618	12.9
Equity income	189	2.3
Bond funds		
Flexible income	90	2.2
Corporate bond	685	4.3
Corporate high yield	190	2.5
Government mortgage-backed	165	1.4
Government securities	540	2.7
Municipal bonds	502	3.4
Municipal high yield	67	1.0
Municipal single state	1302	3.5
International bond	264	0.8
Specialised		0.2
Energy/natural resources	42	0.2
Financial services	21	0.2
Gold and precious metals	50	0.2
Health care	28	0.2
Other	56	0.2
Technology	53	0.5
Utilities	101	0.8
Money market		
Taxable	736	23.7
Tax-free	396	4.3
Mixed asset classes		
Balanced	320	2.1
Asset allocation	178	1.2
Total	9412	100

Source: *Investment Companies 1997*. CDA Weisenberg Investment Companies

The table above illustrates the degree of complexity in the product market; but it should also be related to the degree of elaboration in demand. An important aspect in the Anglo-Saxon model is the fact that many advisors and consultants play a role in helping clients define their needs and express their requirements. Institutional clients typically give mandates not only to one asset manager, but rather to several, depending on the areas in which they judge them most competent. For instance, if a pension fund wanted to invest $500 billion it would not be unusual for it to place say $100 billion with Invesco and $100 billion with Merrill Lynch for growth funds, $200 billion in a Fidelity value fund, and the remainder with two niche players for alternative fund management in small caps or options. Such refinement in demand has a consequence for the *entrepreneurial synthesis* of the Anglo-Saxon model: any company has to show a particular coherence between its customer focus, its investment philosophy and the corresponding organisation structure.

In the Anglo-Saxon model each investment house tends to choose a generic investment philosophy, which then underlies the whole investment process and gives it coherence. For instance, Fidelity Investments Ltd presents itself as having a value style, as set out in its advertising brochure: "Fidelity's philosophy (...) is the identification of the fundamental value". Delaware, another American fund management company, has on the contrary a growth philosophy. As Molly Baker describes it, after spending one year with Delaware managers, mutual funds in America have become just one more commodity consumer product, like toilet tissue, breakfast cereals or toothpaste (2000: 104). Marketing professionals are essential to promote the products and attract and retain investors (Marcus and Wallace, 1997); they help refine positioning, publish brochures and advertising, and more generally they publicise the work of the fund managers in layman's terms: "why Delaware?" "why Small Cap?" "why Growth versus Value? " (Baker, 2000: 104-106). The investment process in the Anglo-Saxon model is conceived as a technology that stems from an investment philosophy which operates through precisely devised procedures that result in the selection of securities that fulfil clients' requirements. The coherence is further sustained through the choice of particular technology tools, such as computer models and databases. The following diagram summarises the *entrepreneurial synthesis* in the Anglo-Saxon model, as a combination of technology and resources to respond to a particular customer target:

Figure 14: Entrepreneurial synthesis in the Anglo-Saxon model



The Anglo-Saxon model thus offers far more structure and conceptualisation than the French model, in which established networks were at the basis of the response to clients' requirements. It is also worth noticing that both the investment philosophy and the investment strategy have an impact on the investment process, which is at the core of the *conception of control.*

2.3. Conception of control: Taylorist work organisation

In terms of work organisation, the Anglo-Saxon model is fundamentally different from the French one. It tends to consider investment as a true industry, and to establish a strict division of labour in order to replace intuition with a set of procedures that can be analysed and eventually improved later, as in a factory.

2.3.1. Division of labour and task definition

In the work organisation of American or British companies we notice a strong division of labour between various types of experts. Unlike the French model, in which the fund manager was at the core, portfolio management in the Anglo-Saxon model is best described as an *investment process*.

The term 'investment process' refers to the understanding of asset management companies as factories and their work as something engineered. "Instead of science, the term which seems more appropriate to investment work is technology" (Taylor, 1969). The Anglo-Saxon model embodies the claim that it is possible to beat financial markets through a rigorous mastery of financial techniques and risk management. This image has been noticed by French managers, as is shown by this marketing director of a French asset management firm:

> In my opinion, the model applies well to the companies targeting pension funds. The myth is to be organised in order to have recurrently good performances, with buy-side analysts, equity tables, and collective decision-making processes.

The claim is confirmed by American consulting firms, which sometimes play the role of organisation consultant and advise asset managers how to organise to perform well. A consultant in such a firm told us that:

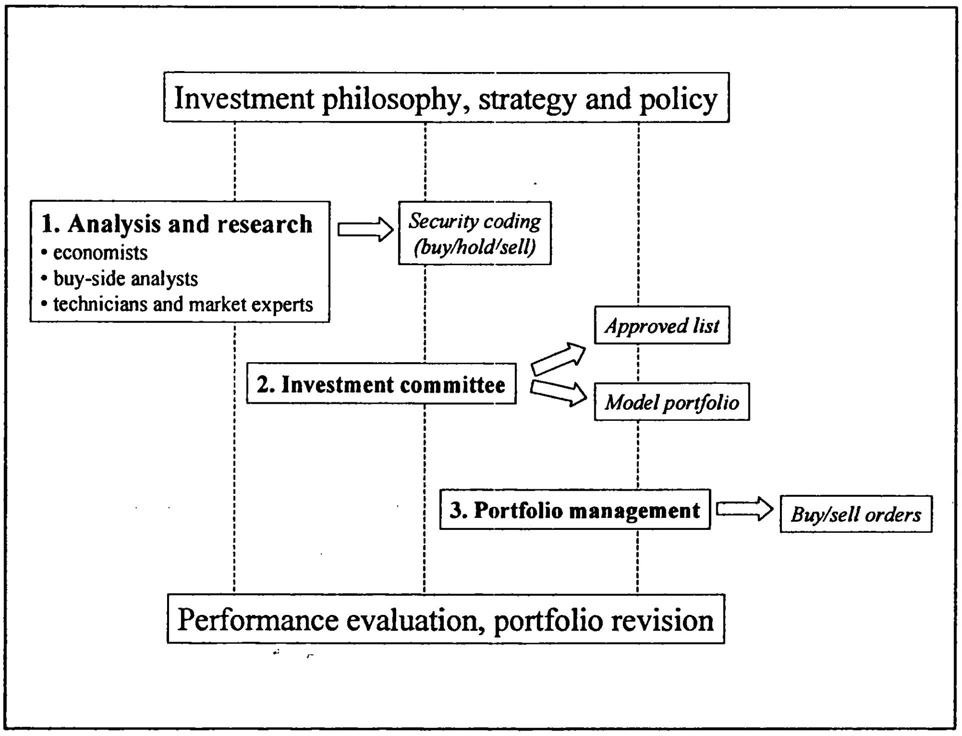
> If there is an overall investment philosophy, a real organisation, a management with strong convictions, which motivate the employees, we notice that performances are regularly good. And with regularly good performances, after 3 to 5 years, you are among the best.

The Anglo-Saxon model is based on the *conception of control* that it is possible to have regularly good performances, thanks to clear procedures and appropriate risk management. This concept is widespread amongst all categories of fund managers. For instance, Schroders, the leading British asset manager, says it pursues "a disciplined and structured approach to portfolio construction which aims to add value incrementally based on lead differences relative to indices"; and "can consistently add value over a market cycle by making considered investment decision without taking high levels of risk" (Schroders, 1998). Goldman Sachs, the leading American investment bank, explains that it wants "to leverage the tremendous capacities of the bank in providing high-quality products and services that are delivered consistently year in and year out" (1998). To sustain this claim, the bank develops precise work organisation, which stems from an investment philosophy and is articulated through an investment process and risk management:

> The foundations of our strategy are fundamental research, risk control and an integrated global process. Our philosophy is based on three key beliefs:
> - Active investment management, focused on effective stock selection, adds significant value by exploiting inefficiencies in equity markets
> - Stock price performance is predominantly a function of corporate fundamentals and management competence
> - Systematic risk management is an essential part of successful active investment management.
>
> (...) Our investment process is focused on competitive stock selection, utilising a disciplined, bottom-up research-intensive approach. The asset allocation process combines the quantitative input from the quantitative research team based in New York together with the qualitative input from our regional research teams. (...) Regular risk monitoring is used to ensure that deviations from the benchmark are justifiable and intentional. (Goldman Sachs, 1998)

This organisational aspect relates to what is called the "traditional" investment management organisation, which means a particular investment structure that can transform investment into a technical process, with a clear division of labour and precisely defined tasks. In fact, in many respects, the Anglo-Saxon model is a form of Taylorism applied to investment decision-making. Investment is presented almost mechanically as the result of a three-step process: research and analysis, decisions about an approved list of securities, and portfolio management. The following diagram illustrates this organisation structure.

Figure 15: The investment process in the Anglo-Saxon model



Source: Sharpe, Alexander and Bailey (1999: 792-794) and author

The first stage in the investment process is analysis and research. Economists, buy-side analysts[27] and market experts are in charge of studying the general economic environment as well as particular securities. Their predictions and conclusions may be summarised thanks to specific coding, such as a buy/hold/sell designation. This research and analysis is the basis for further investment decisions, since it provides all possible purchasing opportunities as well as recommendations to buy, hold or sell. The list is then transmitted to an investment committee, which typically includes senior fund managers, strategists and the top management of the organisation. The investment committee then examines all the reports and analyses resulting from the first stage, and discusses appropriate investment decisions. This can lead to lively discussions, and is normally team work: the idea here is to determine an approved list, consisting of the securities deemed worthy of accumulation in a given portfolio. The rules of the organisation normally specify that any security on the list may be bought, whereas those not on the list should either be held or sold. The second stage is hence a real production of decision-making, since it manages through discussions, synthesis and argumentation, to write a series of securities on or off the list. The second task of the investment committee regards

[27] Financial analysts who work for fund management companies (hence those who buy securities), as opposed to sell-side who work for stock exchange companies.

the determination of the 'model portfolio', which sets guidelines in terms of asset allocation. The model portfolio gives the appropriate ratios not only between asset classes (stocks, bonds, money markets) but also between sectors and countries (Leonard Capital Management, 2000). It therefore determines the general profile that the fund managers should take into account when they define the shape of the individual portfolios. As a result, asset management is coherent across the company in the Anglo-Saxon model, unlike in the French model, where it was dependent upon single fund managers.

The third stage in the investment process is portfolio management. Like the worker in the Taylorist factory, the fund manager in the Anglo-Saxon model is constrained by the investment process. First, he can buy only securities which are on the approved list. He then decides between the securities in the portfolio, which to sell and which to hold, following the precise indications about the investment objectives as expressed in the investment philosophy. In so doing, he also has to pay attention to the model portfolio, in order to avoid inappropriate asset allocations that would be contrary to the company's current policy. Moreover, in the choice of securities to be put in the portfolio, the fund manager is limited by certain risk-management considerations. In the Anglo-Saxon model, in order to be able to measure performance properly, each individual fund is linked to a benchmark, a stock market index. The gains and losses of the index are carefully monitored, and compared to those of the fund. Moreover, a number of ratios are used to measure the risk; they show the differences in the variations between the index and the fund and enable fund managers to identify how much the portfolio is fluctuating in comparison to the index. In the Anglo-Saxon model, risk management is set in a permitted range, such as 2% or 5%, which indicates that the fund manager is not allowed to have more than 2% (or 5%) difference from his benchmark.

All these parameters go together with a careful monitoring of the fund manager's performances. Evaluation is a constant parameter in the Anglo-Saxon model. While the French model was based on blind trust, the industrial approach in the previously described investment process goes with a constant evaluation of risk and return. Every step in the process is closely monitored, and inadequate performance is identified in order to improve it. Once again, this is similar to a factory where errors are detected and corrected. Since the investment process is separated into precise steps, it is possible at each stage to identify what went well and what did not, by looking at the performance of portfolios. When this has been done, corrections may be made to the selection process. This is why evaluation and portfolio revision are an integral part of the model. The *conception of control* in the Anglo-Saxon model is therefore very different from that in the French model: whereas in France gifted fund managers would be trusted to do their best, in America and Britain fund managers have to follow precisely designed procedures. It is not the individual but the corporation that is meant to produce added value, through team work, division of labour, quasi-scientific planning and modelling, and careful control, evaluation and improvement. Consequently, the leading coalition is made up not of fund managers, but rather of those such as sales and marketing managers who control the commercial side of the business, and the Chief Investment Officers and the CEO who control the investment process. These individuals are the members of the Investment Committee; they supervise the division of labour between all employees and review individual performances. They are normally former fund managers or analysts and not very young. Their control over corporate organisation and corporate routines vests them with power. However, as the Morgan Grenfell case of 1998 illustrates,[28] their position depends upon the performance of the investment process they have designed. The *conception of control* in the Anglo-Saxon model, with its clear roles and process, goes together with a particular kind of Human Resource Management, in which performance is a key criterion.

2.3.2 Human Resource Management

The last dimension in the *conception of control* has to do with Human Resource Management. Here again, we can notice some differences from the French asset management model of the mid-1980s. Three elements characterise the patterns and behaviours of companies in the Anglo-Saxon business system: flexibility, performance-related pay within a money culture, and a focus on the external labour market.

First of all, one should notice a great degree of flexibility in the Anglo-Saxon model: employers have "considerable capacity to introduce flexibility initiatives to meet changing requirements" (O'Reilly, 1994: 257). This corresponds first of all to the ease with which companies can hire and fire employees. As *P.*, a British human resource manager, tells us: "if you talk about getting rid of people, it is fairly easy". As a consequence, it is not unusual within Anglo-Saxon investment banks to get rid of considerable numbers of people at once, and very quickly (Auger, 2000: 149). While the Labour Code and the national collective agreements were non-negotiable boundaries to companies' action in the French model, asset management companies have more scope for action in the Anglo-Saxon model and they tend to use it. For instance, it is notorious that British and American asset managers operating in London had their employees sign a particular document, by which they declared that they agreed to work more than 48 hours in a week if need be, thereby by-passing the limit

or Auger?

[28] In 1998, Morgan Grenfell decided to restructure its investment process and fired one Chief Investment Officer; the main change was to separate business and fund management activities to rationalise their investment process. This was advised by the management consultant Mc Kinsey.

stipulated in the European directive on working hours. Flexibility in the Anglo-Saxon model regards not only hiring and firing but also the general working conditions, which are company-specific and not sectoral or national, and sometimes even specific to each individual employee (Lane,1995: 126). Individuals have to negotiate their pay and benefits individually, and the resulting bargaining is not influenced by national collective agreements, unlike in the French model. Industrial relations are therefore very limited in the asset management business. As *P* notices: "there is a trade union somewhere, but it does not have many members". The financial culture in Britain and America is very individualistic and pro-market. This has an impact on both pay and careers.

Pay is the most important element for human resources in the Anglo-Saxon model. "Cash is king", and money and bonuses are the ultimate preoccupation of investment professionals: not only because they are nice to have in your pocket but also because they are the ultimate success signal in the business (Baker, 2000: 235-238), especially because pay is highly related to performance in Anglo-Saxon portfolio management firms. This goes together with what D'Iribarne identifies as the dominant logic in American companies: the logic of contract, where work and performance are fairly compensated (D'Iribarne, 1989: 138). In the Anglo-Saxon model market mechanisms apply within the firm as well as outside it, and each employee is perceived as selling his or her work for a price that refers to a market value. This has important implications. First of all, pay is related to performance. As explained by *B.*, a recruitment consultant in London, "bonuses vary enormously: depending upon individual performance it can be 100%, but it can also be 10% or even zero". To determine bonuses, companies develop complex appraisal systems: personal goals are set up and reviewed, along with a number of performance indicators. For instance, performance relative to the benchmark combined with risk management ratios would typically be taken into account to evaluate a fund manager. The amount of new money generated by a sales manager would also contribute to determining his or her bonus. The availability of rankings and performance measurement ratios that cover the whole asset management industry is therefore a crucial element in the good functioning of the model. "For Jerry's group and for much of Wall Street, the numbers that appear on the scorecard that summarises the performance of all funds have a direct impact on their annual bonus checks" (Baker, 2000: 24).

Secondly, the level of pay is influenced by the market price of a given individual. There are compensation surveys in Anglo-Saxon countries which give information about how much investment professionals get for certain positions. These surveys are used to determine starting salaries for new recruits and also to adjust the salaries of existing employees. Moreover, the connection between pay in the firm and market prices is sustained through the constant temptation for employees to leave in order to get more money. Because money is the ultimate reward and also the ultimate recognition for success, individuals in the Anglo-Saxon model are constantly looking for salary increases. When they are contacted by head-hunters offering them more money they may leave, or they may use this information as a bargaining tool to get more from their current employer. This goes together with the third key element of Human Resource Management in the Anglo-Saxon model: the role of the external labour market.

The labour market for investment professionals in Anglo-Saxon countries is very developed and very institutionalised. We have mentioned compensation surveys. But the role of head-hunters is even more widespread. One human resource manager explained that he did not try to recruit directly but would *always* use head-hunters to find investment professionals. In London or New York, the labour market for these investment specialists is a fierce place, where recruitment agencies compete for talents. Practices can be very aggressive, with head-hunters phoning people directly and trying to take well-regarded individuals away from their current employers. What is specific to the asset management business however, especially in comparison to traders, is that not only individual fund managers but also whole teams can be bought away from competitors. Because work is organised along a process, it is not uncommon to hire the whole team rather than just one individual. The career of Nicola Horlick, a famous personality of London's investment scene, because of among other things her five children and her nickname "supermum", is a good illustration:

> Graduated from Oxford she joined SG Warburg & Co in 1983, where she became hooked on money management. She then moved to Mercury Asset Management unit, a spin-off from Warburg. In 1991, however, she bolted for Morgan Grenfell, together with her team. For the five years ended in 1996, Morgan Grenfell's pooled pension fund rose 17.4 percent a year, ranking Horlick's group in the top 10 percent of pension managers tracked by Leeds-based Combined Actuarial Performance Services. But in January 1997 Morgan Grenfell suspended her for negotiating a new job with Dutch rival ABN Amro Bank. (Horlick later acknowledged the talks.) She stormed off to the Frankfurt headquarters of Deutsche Bank, Morgan Grenfell's parent - with 30 reporters she invited in tow - where she demanded a meeting to discuss her reinstatement. Bank officials heard her out, then refused her request. But the visit, recounted in every major UK newspaper, made her a household name. Horlick then opted to join former MAM colleague John Richards, 37, who was starting up a UK pension fund manager for Societe Generale.[29]

A typical career in the Anglo-Saxon model is not spent in one asset management company: it is based upon a good use of the external labour market to signal opportunities and to offer pay

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[29] Summary based on the article "The Spice Girl on SocGen's pirate ship" from *Institutional Investor*, New York, August 1998.

raises. In contrast with the French model, where there was a primacy of the internal labour market, the Anglo-Saxon model gives the primacy to the external one. This completes the analysis of Human Resource Management, which has shown the consistency between flexibility, performance-related pay, and careers based on market mechanisms and external moves. We can now look at *organisational routines*.

2.4. Organisational routines

The last dimension in the analysis of the Anglo-Saxon model is its *organisational routines*. Once again, the contrast with the patterns in the French model of the mid-1980s is noticeable. First of all, routines are located not in individuals but in companies; they are inscribed in the investment process and expressed in the use of particular tools, not in the informal networks which were the repository of knowledge in the French model. Then, the 'logic of contract' is the basis for customer relationships; it aims at identifying objectively the best partners available and goes together with specific procedures and intermediaries to help the selection process.

2.4.1. The pre-eminence of formal procedures

The Anglo-Saxon model performs according to rules and procedures that are continuously developed and re-developed, not according to the sole talent of one particular individual. These rules are developed at the company level and at the institutional level too.

Rules and procedures are developed in each individual asset management firm. For instance, the investment firm Greathawk developed its own "Greathawk's Maxims", a list of 18 principles meant to guide the actions of its fund managers (Stutchbury, 1964: 197). Such formal procedures are produced and codified at the same time as the process is evaluated and improved. They are also supported by particular information technologies:

- to develop financial models and perform simulations on portfolios, using for instance the Black and Scholes formula for option pricing or the CAPM theory for optimum diversification etc...
- to monitor and assess the performance of the portfolios

Organisational routines in the Anglo-Saxon model are therefore expressed in a tangible way, through certain rules, codes and programmes. It is also worthy of note that they are sustained at the institutional level of the business.

We should mention the role of the American Association for Investment Management and Research (AIMR), which has developed particular standards for the calculation and presentation of performance information. AIMR standards require particular accounting rules[30] and are continually updated. Widely accepted by the investment community, these standards define the playing field for asset management companies, which have to adopt them if they want clients to take them seriously. This production of standards relates not only to technical considerations, but also to code of ethics and standards of professional conduct. For instance, the International Council of Investment Association has developed a code of ethics and standards of professional conduct. The Code of Ethics specifies that:

Investment Professionals shall:

- observe high standards of honesty, integrity and fairness,
- act in an ethical manner, with reasonable care and diligence, and with respect for the individual in dealings with the public, clients, prospective clients, employers, employees and fellow investment professionals; and
- continually strive to maintain and improve their professional competence.

Anglo-Saxon players therefore operate in an institutionalised environment in which the appropriate behaviour has been precisely defined at the professional level. To show once again the importance of formal codes and procedures, we need only mention the role of one particular figure in any British or American asset management firm: the compliance officer. The compliance officer is normally a legal expert, who is in charge of verifying that his or her employer is behaving appropriately, with regard to legal prescriptions and to professional standards, in all of its investment management operations. He or she will make sure that the firm fulfils its mandatory duties in relation to its depository and its contractual obligations, in particular when the client has specific requirements in terms of risk level or portfolio weighting.

Consequently, formal procedures influence *organisational routines* at two levels: in the daily work of employees, who apply corporate rules and policies, and at the level of the whole profession, through standards and codes of practices.

2.4.2. The logic of contract

Rules and procedures not only have an impact on the work of investment managers, by codifying their behaviour. They also show that the legal dimension takes first place, in a system where contracts and litigation are the foundations of customer relationships. Whereas in the French model corporate or personal networks sustained customer relationships, the

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[30] For instance, portfolio returns must be calculated using a weighting formula eliminating the effects of external cash flows; they also require investment values to be determined on a full accrual basis.

Anglo-Saxon model is based on market mechanisms and operates through contracts stipulating the rights and duties of each contractor.

First, we see in the Anglo-Saxon model what D'Iribarne has called a "logic of contract" (1989: 146): individuals relate to each other in the light of their explicit and reciprocal obligations, and with a keen respect for the fairness of their agreements. This legalistic approach is critical for customer relationships. For instance, the constitution of a Unit Trust for the Royal Wessex Bank Limited, to be managed by Greathawk Securities Management, contained no less than 45 clauses, which covered all possible aspects of the business relationship between the Trustees of the fund and its manager (Stutchbury, 1964: 199-224). Pension funds in the UK operate under trust law and are thus bound by the trust deeds of the fund. Trustees have a fiduciary responsibility under the 1961 act to behave in the 'best interests' of the current and future beneficiaries of the fund (Blake, 1995: 319). The ERISA law in the United States also gave pension funds a fiduciary responsibility to their members. This legal responsibility has a very concrete consequence in the Anglo-Saxon model which takes the form of litigation, with members taking their pension funds to court, when they believe their interests have not been properly looked after. US investor militancy is even backed by an array of such support mechanisms as consultants to arrange the proxy fights and lawsuits, and such advisors as the Council of Institutional Investors (*Investors Chronicle*, February 15, 1991; March 8, 1991).

The famous Megarry judgment of 1984 is another illustration of the legalistic approach to customer relationships in the Anglo-Saxon model. The National Coal Board (NCB) took the National Union of Mineworkers (NUM) to court in 1982, after the NUM had refused to endorse that year's investment proposal and had proposed the prohibition of investment in energy companies competing directly with coal. Both the NCB and the NUM were trustees in the mineworkers' pension fund. Mr Justice Megarry decided in favour of the NCB and declared that the purpose of the trust was to provide financial benefits for the beneficiaries. He argued that the pensioners had no particular financial interest in the success of the coal industry, and that the trustees should use the full range of investments authorised in the terms of the trust to enhance the fund's returns or reduce its risk (Blake, 1995: 319-320). This shows how legal considerations impact on customer relationships in the Anglo-Saxon model: investment choices may be contested and lawsuits pursued if clients are not happy with their asset manager. Another consequence of this logic of contract is the important role played by advisors and intermediaries.

In the Anglo-Saxon model, it is common practice to use the services of investment advisors and consultants. Institutional investors generally use external fund managers to manage pension funds or parts of their balance sheets on their behalf. This is also a way for institutional investors to protect themselves against possible claims or accusations by their stakeholders, by delegating the responsibility for at least some of the investments, as a consultant told us. As a result, less than 10% of investment trusts in the UK employ their own investment management staff (Draper, 1989: 143). Then, the selection of such professional asset managers is normally done with the help of an advisor, the investment consultant, who helps the trustees to choose the right manager (*Investors Chronicle*, February 8, 1991: 30). The investment consultant has normally three tasks to perform. First, it analyses the client's assets and liabilities and designs its investment needs. Then, it provides information about possible investment vehicles and management services. Finally, and maybe most notoriously, it carries out a selection process to find the most appropriate asset manager for its client. This normally means writing an invitation to tender and analysing the replies from the various asset management companies, and eventually organising interviews and presentations to enable the client to make his final decision. According to Eurostaf (1998), 80% of invitations to tenders in the US are mediated through an advisor. Investment consultants, such as Frank Russell, Watson Wyatt or Mercer are therefore powerful companies which perform numerous analyses and investigations of asset management companies. Their role is critical in the Anglo-Saxon model, in rendering the business efficient and in supporting the logic of contract. To complete the picture of this environment, we should also notice the role played by such other professionals as rating agencies, specialised lawyers and other management consultants, which all have an influence in the definition of standards and in the selection and ranking of asset management companies. They complement the financial data compiled by news groups such as Morningstar Mutual Funds, which gives information on mutual funds' prices and performance (Cornett and Saunders, 1999: 135).

The Anglo-Saxon model is thus a true market, where a demand meets an offer, where competition operates through the mediation of professional advisors and through particular measurement tools, which taken together allow investors to compare, rank and judge the performances of asset management companies. Personal or corporate networks have little relevance in this system which selects whatever best fulfils precise criteria. We will see in a subsequent chapter how these institutional agents and these measurements tools played a key role in sustaining the newly established organisational field that developed in France around 1996.

3. Conclusion

The Anglo-Saxon model again shows remarkable consistency. Its *entrepreneurial synthesis* brings together resources and investment philosophy in order to target precise customer segments. The investment philosophy is then translated into an investment process, corresponding to a *conception of control* which emphasises the division of labour and close control over individual workers. Finally *organisational routines* make the process work through formalised rules and procedures, and through calculation tools and selection mechanisms. As well as ensuring consistency and complementarity between the three layers, the pattern reveals dynamic links between firms and their social and institutional environment. In looking at the three layers of our framework, we discovered essential links with, among other things, the pension system, the regulatory framework, the labour market and the logic of contract, as well as with professional structures and financial expertise. As in the French model, our analysis has therefore revealed the duality of structure in the patterns of organisation and behaviour of asset management firms, by showing the dynamic links between internal organisation and surrounding environment. This chapter has thus illustrated the applicability of our framework, and consequently a contribution by the thesis to the analysis of situated economic action.

The framework proved successful in categorising the various patterns of organisation and behaviour in the asset management business. It enabled us to build a coherent framework because the three layers of analysis (*entrepreneurial synthesis*, *conception of control* and *organisational routines*) are intimately linked. Thanks to its stratified design, it also enabled us to examine carefully each layer and to show how the patterns we identified integrated the institutional and societal environments of the firm. The second conclusion is more mundane and regards the strong contrast between the two models. In France we saw an asset management industry subservient to universal banking, in Britain and America one proudly existing on its own. The French model relies on gifted individuals, the Anglo-Saxon model on processes and procedures. In one case there is a pre-eminence of networks, in the other selection through market rules. Given such radical differences, it is therefore particularly surprising that by January 1999, the French asset management industry had to a large extent become similar to the Anglo-Saxon model, as we explain in the following chapter.

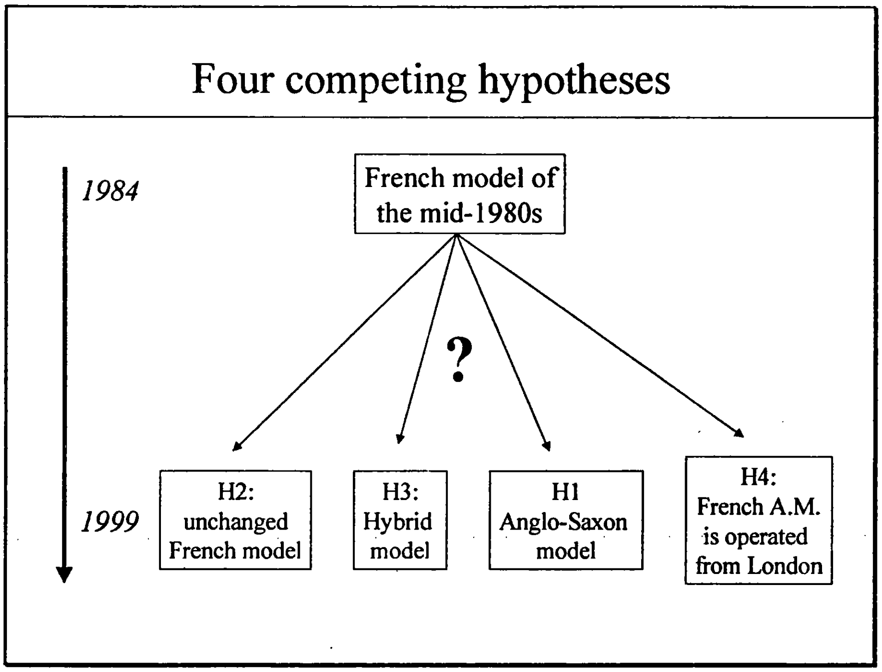
CHAPTER V. THE TRANSFORMATION OF THE FRENCH ASSET MANAGEMENT INDUSTRY

In the last chapter, we presented the French asset management model of the mid-1980s and the Anglo-Saxon model. But from 1984, the French asset management industry was faced with important changes in its business environment: deregulation, increased competition and internationalisation. It is now time to analyse the situation in January 1999, at the launch of the euro, and to examine whether any of the competing hypotheses we designed in the second chapter can be verified. In other words, now that we know the specific patterns of the French and Anglo-Saxon models, and have identified the predictable trajectories that could have resulted from a new business environment, we must ask: how did French asset management companies adapt? Using once again our analytical framework, we will test in this chapter which of our competing hypotheses is verified. The earlier analysis used secondary sources and archives as well as interviews with some of the individuals who worked in the asset management industry in the mid-1980s. In the present chapter, the material is mostly drawn from direct investigation of companies through interviews and company data. In an attempt to draw conclusions about the totality of the French asset management industry, we studied 16 companies through direct contacts:

- six companies related to retail banking groups (category 1)
- five companies related to insurance groups, including the Caisse des Depots (category 2)
- five independent companies (category 3)

Together these 16 companies represented 71% of the market, on the basis of assets managed. To clarify our investigation, it may be useful to recall the hypotheses we formulated about the organisational adaptation of the French asset management industry:

Figure 16: summary of the hypotheses



We will see that reality is not as clear-cut as these four possible outcomes, and that none grasps fully the transformation in the French asset management industry over the period 1984-1999. Starting from the business system framework and from the idea that economic action is embedded in its social and institutional context, we expected to find some resistance to change and that, as Whitley for instance expressed it, "societies with different institutional arrangements will continue to develop and reproduce varied systems of economic organisation with different economic and social capabilities in particular industries and sectors" (1999: 3). The evidence shows, however, that French asset management firms have adopted the Anglo-Saxon model: we will show that the new patterns of the French asset management industry in January 1999 are consistently similar to those of the Anglo-Saxon model. In other words, the evidence seems to contradict Whitley's claim. This result is surprising because we were very careful in designing a framework that took account of the institutions surrounding firms, and should not therefore have overlooked the claims of persisting differences among national economies (Boyer, 1996; Florida and Kenney, 1993; Hollingsworth and Boyer, 1998; Lane, 1992; Maurice et al., 1986; Whitley and Kristensen, 1995, 1997). We believe our conclusions are convincing because of the depth and consistency of our analysis: we cannot be accused of superficiality, especially since we also pointed out some differences in detail between French asset management at the end of 1998 and the Anglo-Saxon model, which shows that we do not overstate the similarities.

We will notice some shifts towards the Anglo-Saxon model, in the degree of independence of companies, in the degree of flexibility of human resource management, in the implementation of selection procedures, and in the fact that some French asset management companies have developed international operations in London. But these do not allow us to argue convincingly for either the hybrid model H3 or the displacement to London, hypothesis H4. They may indicate that the institutionalisation of the new model is not complete, or that the surrounding French business system is preventing a thoroughgoing implementation of the Anglo-Saxon model. Moreover, we will notice two puzzles in the transformation of the French asset management industry. It appears that one section of the industry, those companies dealing mostly with elderly private investors, has hardly changed at all since the mid-1980s. Also surprising is the timing of the transformation: French companies adopted the Anglo-Saxon model mostly after 1996, almost overnight, and not progressively over the period of our study. These considerations will lead us to a new interpretation of organisational adaptation, which will then be developed in the following chapters.

1. Entrepreneurial synthesis: asset management has become an autonomous business

At the level of *entrepreneurial synthesis*, the French asset management industry in January 1999 appeared to follow the Anglo-Saxon model. In 1984 the French model was based on vertical integration with no recognition of the specific character of the asset management business. By the launch of the euro, French asset management had achieved autonomy both at the level of the profession and at the level of individual companies. In the new *entrepreneurial synthesis*, portfolio management companies had their own strategic decision-making, their own resources and marketing and sales capabilities. As in the Anglo-Saxon model, they aligned products, distribution and customer targeting.

1.1. A new professional identity

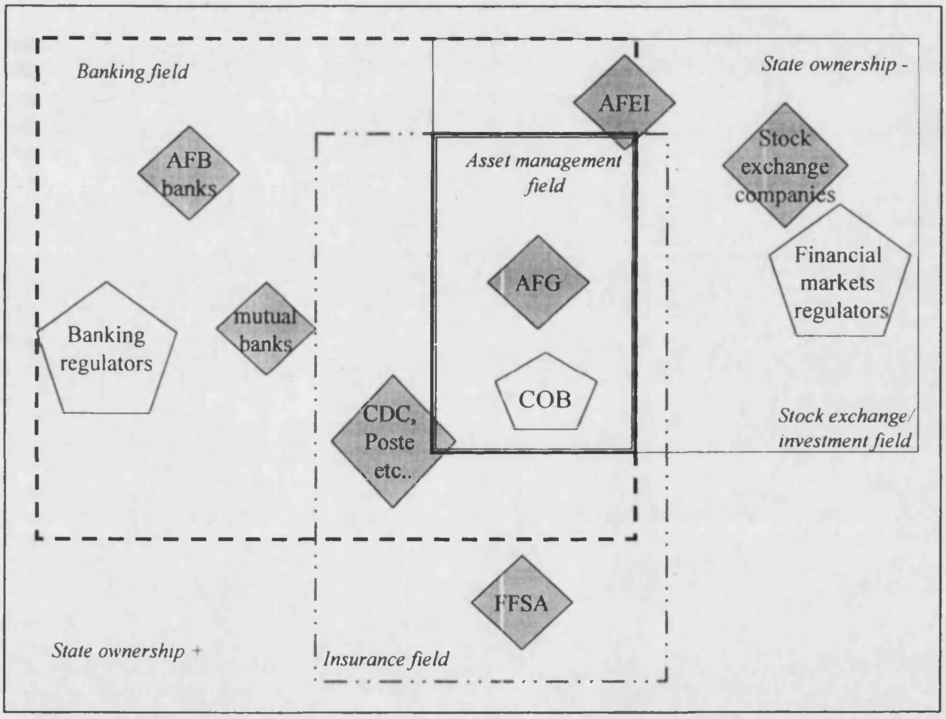
The picture of the French asset management industry at the launch of the euro is radically different from the situation in the mid-1980s, and looks very much like the structures of the

Anglo-Saxon model.[31] Alain Leclair, president of the French Asset Management Association, the AFG-Asffi, had this very revealing comment when starting his review of the 1997 year:

> A big new business has appeared in France, just like the one existing in Anglo-Saxon countries. (AFG-Asffi 1997 annual report)

First, the asset management field has gained professional autonomy from banking and insurance. If we use the same graphic to represent the relationships between the fields of banking, insurance and stock exchange/investment, we can say that by 1999 asset management did exist in France as an autonomous business. Asset management's competency area, or jurisdiction (Abbott, 1988:20), was guaranteed through the role of the COB as a single supervisory body for the industry's activities, and through the professional association AFG-Asffi as an effective representation within financial services.

Figure 17: asset management has gained autonomy in 1999



Since 1996 and the Modernisation of Financial Activities Law of July 2, 1996 (the MAF law), the COB alone has had control and supervision authority over all portfolio management companies,[32] even if they originate from credit institutions. This means that asset management has its own regulatory framework, distinct from the one of banks and insurance companies.

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[31] We will go back to the importance of the 1996-1997 period in the next chapter and show how it was a turning point in the case study.

[32] Legal entities created in 1988 to manage mutual funds, after the abolition of the "agents de change", stock exchange brokers.

But the recognition of asset management as a new business in its own right was also achieved through the particular role of AFG-Asffi. Earlier we pointed out how weak the various associations representing asset management in France were in the mid-1980s, in comparison with those representing banking and insurance. By the end of 1998 the situation had clearly changed. This was in the main the result of the merger between AFSGP, the French Portfolio Management Companies Association, and ASFFI, the French Funds and Investment and Asset Management Companies Association, which created AFG-Asffi in January 1997. This association grouped together all those companies operating in the asset management business and using the legal denomination of portfolio management company. With around 300 members, in a profitable and growing business in which the French industry is number one in Europe and number four in the world, the association was able to assert its influence. After the nomination of a new president and a new general secretary, respectively Alain Leclair from Paribas and Pierre Bollon, formerly general secretary of the French Insurance Companies Association (FFSA), an important restructuring took place in the association. In 1997 the association was able to develop new methods of operating, based on a new organisation chart, rationalised activities and better budgetary control and management. It also developed and intensified its lobbying of other professions and public authorities (AFG-Asffi, 1998: 5). With as many as fourteen working groups, each headed by an established professional and lobbying on particular topics, it declared its ambitions and described itself as the "asset management home" (AFG-Asffi, 2000). This dynamism and influence could be seen during the preparation of a new European directive about European portfolio management companies, when AFG-Asffi lobbied the European Commission extensively. The association's effectiveness was acknowledged by many observers and professionals. *J.*, a consultant, suggested for instance: "You will see the difference between AFG-Asffi and the AFB [French Banking Association], just the presentation of their headquarters is revealing". In fact, the AFG-Asffi headquarters, in an 18th century townhouse in rue de Miromesnil, are newly renovated and stylish, while the AFB's headquarters in rue Lafayette have an old-fashioned air, with old carpets and decor dating from the 1970s.

In summary, we can say that the structures of the French asset management industry have changed dramatically and that by January 1999 they resembled those in the Anglo-Saxon model: independent from other services and with their own professional identity. These similarities could also be observed at the level of individual companies.

1.2. New corporate structures: autonomous subsidiaries

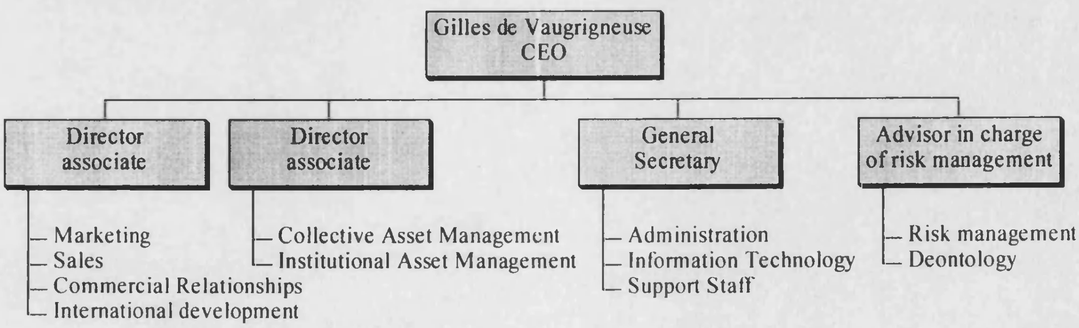
In 1999, the recognition of asset management in France as a business separate from retail banking or insurance could be seen not only at the professional level, but also in the corporate structures of individual companies' ~~corporate structures~~. Virtually all retail banks and insurance companies had created subsidiaries devoted to asset management.

By the launch of the euro, French financial groups treated asset management separately, as a distinct activity with autonomous resources. For instance, the insurance group AXA 1998 annual report stated that, "today we think that our businesses are insurance, reinsurance and asset management" (3). Indosuez and Société Générale, the two examples we used in the last chapter, exhibited similar changes: Indosuez, which merged with Crédit Agricole in 1996, had a dedicated asset management subsidiary (Indocam), and Société Générale had created SGAM in December 1996. These newly created subsidiaries also relocated to buildings clearly separate from their mother company's headquarters. This de-merger of asset management became general among financial institutions. The organisation charts of AGF asset management, the subsidiary of the insurer, and of BNP Gestion, subsidiary of the retail bank, are examples of the new corporate structures:

Figure 18: AGF's organisation chart in 1997

Source: AGF, *L'Agefi* June 17, 1997

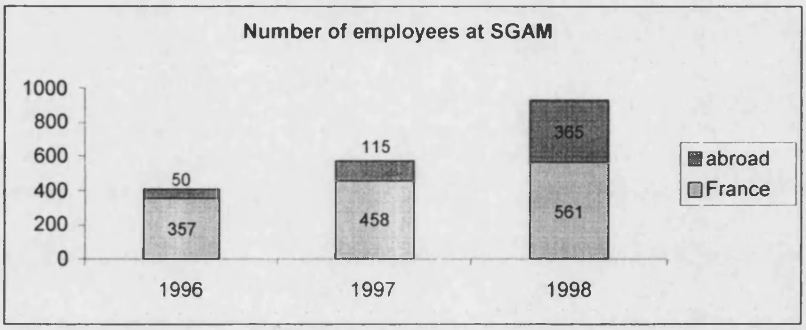
Figure 19: BNP's Gestion organisation chart in 1997



Source: BNP, *L'Agefi*, June 27, 1997

These organisation charts show that by January 1999, in both banking and insurance groups, asset management was operated through autonomous companies with their own resources. There was therefore a very different pattern from the French model of the mid-1980s. As the vice-president of an asset management firm summarised: "we went from a business in a bank to a subsidiary in the real sense: independent, with the means of our independence." The number of employees is an indicator of this new autonomy in terms of resources. SGAM, for instance, more than doubled from 407 to 927 employees in only two years:

Figure 20: increase in the number of employees at SGAM



Source: SGAM annual reports

The new situation was thus very close to the Anglo-Saxon model in which, as we noticed, asset management was operated through independent companies with autonomous resources and important means of action. Furthermore, as in the Anglo-Saxon model, this independence resulted in the formulation of a new *entrepreneurial synthesis*, no longer devoted to the retail network but emphasising strategic positioning.

1.3. New distribution agreements

In 1999, the *entrepreneurial synthesis* in French asset management firms disclosed a situation in which, as in the Anglo-Saxon model, products were defined in order to target precise segments of customers, and firms tried to align products, investment philosophy and distribution channels.

By the launch of the euro, the situation of asset management within financial institutions had changed radically: it was no longer a type of technical support serving only the purpose of universal banking. It had an autonomous existence, its own corporate structures and resources and, importantly, its own separate marketing and sales capacities, distinct from those of the retail bank or insurance network; and a separate strategy, as *M.* ,former administrative manager, explains it:

> Creating a marketing & sales division meant that there was a client. The top management then decided to systematise it all: business plans were written, an international department was opened, new targets were identified, like for instance treasurers, institutional investors. This meant taking part in invitations to tender, in competition with AXA, Paribas AM, etc. This meant moving from a department involved in fund management to a company that has to respond to its clients.

The development of new marketing and sales structures and capabilities meant that French asset management firms targeted an array of external customers, and did not serve only the in-house customers of the bank's retail network. With de-merger, the reason for these firms to exist changed and now embodies the new *entrepreneurial synthesis*. While asset management firms in the French model had an exclusive relation with the distribution network of the bank or insurance company, they now distribute their mutual funds via several channels and partnerships. For example *J.*, the CEO of an independent player, explained that his company has developed a partnership with a network of Independent Financial Advisors.[33] Another vice-president explained that his company had a subsidiary which claimed to be a supermarket for mutual funds: it sold via the Internet, by post and by telephone. By 1999 asset management had adopted the idea that segments and distribution had to be combined to target certain customers precisely, with the right products through the right channel. This corresponds precisely to the *entrepreneurial synthesis* in the Anglo-Saxon model: develop products to target particular segments of customer, and distribute them through the appropriate channel.

By January 1999 the French market had adopted an industrial logic: asset management companies portrayed themselves as "factories" producing specific products for particular segments. They did not just support their parents' distribution networks. They looked for clients on their own initiative and developed various strategies and partnerships to best sell their own products. The use of new marketing recipes illustrates the change: companies supplied so-called "blank" products,[34] instead of the old "diversified" funds prevalent in the 1980s. There were also "profiled" funds, which targeted the levels of risk appropriate to different marketing niches. The final novelty in 1998 was the development of so-called "funds of funds".[35] As *M.*, market development manager, explains: "In the asset management market,

[33] Self-employed financial experts who give advice to private investors and who also sell some mutual funds.

[34] Mutual funds without any reference to the company managing them, so that various distributors can put their own brand on it, just like distributor brands in the retail industry.

[35] Mutual funds that bundle several other mutual funds, from different companies.

market structures correspond to segments in the demand. On each segment, revenue, sales packaging and distribution strategies differ". Reflecting on the changes in the asset management market, and about the new *entrepreneurial synthesis* in his bank *J-C*, strategy director, concludes: "The way it works, the way to go about things with institutions is now American". French asset management companies have indeed changed their *entrepreneurial synthesis*, and their business has become an industry, where marketing and distribution strategies are in line with particular resources and technologies. As we will see, this goes together with dedicated investment processes, in a new *conception of control*.

1.4. Conclusion

The *entrepreneurial synthesis* of the French asset management companies at the launch of the euro had changed greatly since the mid-1980s. Admittedly, the new situation of independence did not affect the third category of players, who were already by definition independent. But the proposition that the patterns and behaviour of the French system have remained unaltered cannot be sustained: the evidence provided here contradicts Hypothesis H2. The asset management industry did not migrate entirely to an Anglo-Saxon business system, contrary to Hypothesis H4. Decision centres are still primarily located in France, even though most leading companies have some subsidiaries or shared resources in London or New York, as well as in other countries. The hypothesis that the new picture is a hybrid of the French and Anglo-Saxon models is not very convincing either: there cannot really be a middle way between being recognised as a true business and not being so recognised, between vertical integration and autonomy. The most appropriate assessment of the situation at the end of 1998 is that companies had adopted the *entrepreneurial synthesis* dominant in the Anglo-Saxon model. At the same time, the evidence shows that the model had not been adopted in its pure form, but in a milder version influenced by the French historical context.

Yet, what of [illegible] in continuity

It appears that the links between French retail banks or insurers and their asset management subsidiaries remained strong in 1999. Several interviewees told us that they did not think that the strategy of the subsidiary could realistically go completely against that of the group. Even if they had other distribution channels, French asset management companies still made most of their profits by selling through their parent companies' retail networks, which still had the largest market shares. Historical contingencies had some impact here. Moreover, some chief executives recognised that, even if their asset management firm was independent and had its own identity, they themselves still felt a certain attachment to the financial group's corporate culture. A director of an asset management firm, a subsidiary of a retail bank, explains:

> Question: Do you still consider yourself as part of the bank?
>
> *P.*: Yes, of course. Maybe some others would tell you something else. But I was formerly in the bank *XY* and I might have a stronger culture than a young graduate who arrived less than 3 years ago. But we are very much *XY*, we have the brand.

With the heavy recruitment of new professionals who have not spent much time in the parent company, this situation will probably evolve further towards one in which asset management companies have a truly separate corporate identity. *P.*'s comment is not very surprising, given that the changes are fairly recent and that many employees of asset management companies previously worked as bank or insurance managers. The CEO of one company pointed out that most of the leading French asset management brands were large banks or insurers, whereas in America the leaders were such independent asset management companies as Fidelity, Vanguard and Invesco. Here again, historic links have left a trace.

We should therefore conclude from our analysis of the new *entrepreneurial synthesis* of French asset management companies that by January 1999 a radical transformation had taken place. New professional and corporate structures had emerged which looked very much like the Anglo-Saxon model, albeit with some differences of detail related to the French historical context. Examination of the *conception of control* will produce further evidence pointing in the same direction.

2. Conception of control: investment processes have taken over

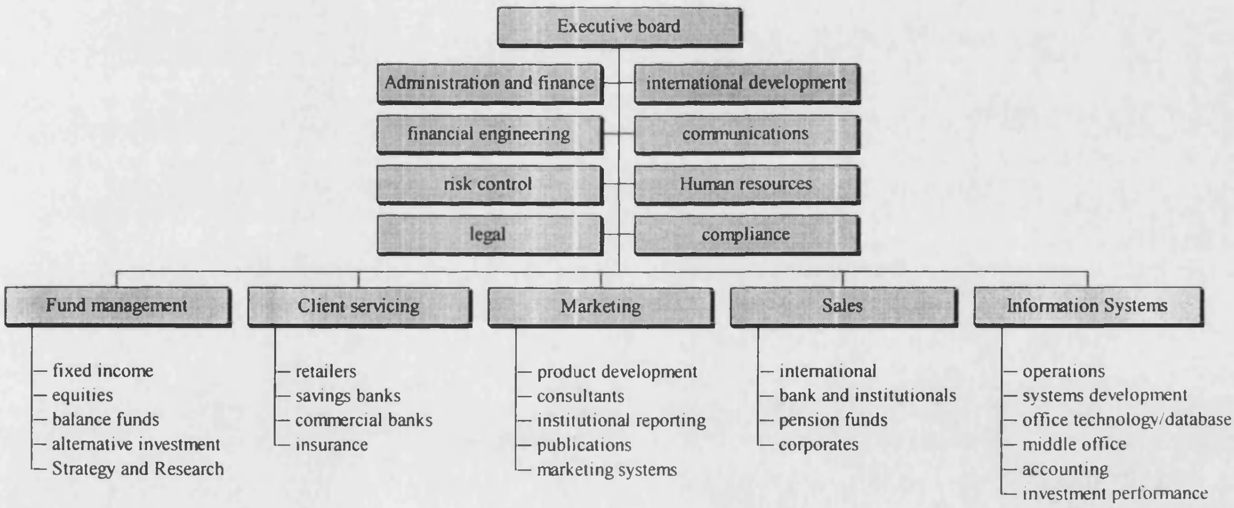
By 1999 the *conception of control* in French asset management had changed radically from what it had been in the mid-1980s, in a way consistent with what we had to say about the new *entrepreneurial synthesis*. Instead of simply trusting their expert fund managers and leaving them to perform as best they could, companies had by the launch of the euro developed investment processes, as in the Anglo-Saxon model. The implementation of this new work organisation which emphasised the division of labour and teamwork went together with a new and more flexible human resource management and a new distribution of power in the company.

2.1. Organisation and division of labour

The French model of asset management in the mid-1980s was centred on the fund manager, who was in charge of the whole value chain, while support functions and marketing and sales were integrated in the structures of the bank or insurance company. By January 1999, the new *entrepreneurial synthesis* meant that French asset management companies were autonomous and had developed true organisational capacities. In terms of the *conception of control*, the role of the fund manager had been sidelined within a new division of labour in which an investment process was in charge. In other words, these companies had adopted the Anglo-Saxon model.

As a starting point, we could refer to the organisation charts of BNP and AGF reproduced above. These show how work was organised along different functional lines: fund management, marketing and sales, support staff and risk-management and control. The example of CDC Asset Management Europe (CDC AME), subsidiary of CDC, the state-owned financial conglomerate, can be used to supplement this observation.

Figure 21: CDC AM organisation chart in 2000



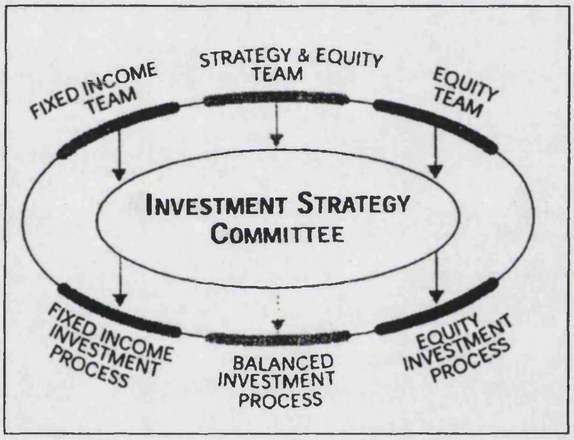
Source: CDC Asset Management, 2000

Immediately noticeable is the greater divide between fund management and a number of other functions, such as marketing and sales and support staff. This division of labour is an indication that fund managers were no longer at the core of the organisation, and that they had been integrated into an authority structure with various divisions and responsibilities. And the new structure was not a natural consequence of any growth in the size of the company, which had only 400 employees altogether, the bulk of whom were still fund managers and their accountants, just as they had been in the mid-1980s. CDC AME's organisation and strategy show that its *conception of control* matched exactly what we identified as the key elements in the Anglo-Saxon model, a focus on regularity and risk management within a mechanical and quasi-scientific process:

> CDC Asset Management's main concern is to achieve consistent performance figures. To this end, it has developed structured investment processes, a highly disciplined investment approach and strict risk control at each stage of implementation. (CDC AME, 1999 annual report: 10)

This focus went together with an organisation based on an investment process centred around a committee, which was one of the main features of the Anglo-Saxon model, in opposition to the central role of the fund manager in the French model in the mid-1980s:

Figure 22: CDC investment process



Source: CDC AME annual report 1999 p.11

In the case of the CDC therefore the perceived best way to organise, as claimed by the company in its corporate documentation, gave pre-eminence to the investment process, and to collective decision-making rather than the individual performance of a talented individual.

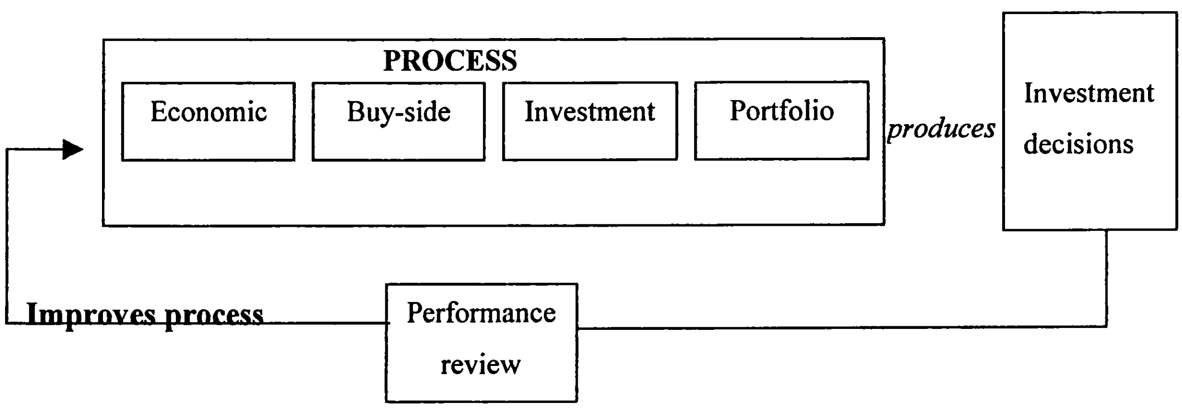
The change in the *conception of control* is to be found not only in company documents, but also in the testimonies of the field professionals. It is captured well in this comment by *H.*, a fund manager:

> Asset Management has not fundamentally changed its core-business: one still tries to have a high return from savings. But while saying that you had a good fund manager that could make value of the best securities would have been sufficient some years ago, it is now necessary to have a process in place and to constantly follow a panel of securities. You have to show that it is a team work, that the decision goes from the economists' indications to stock-picking.

Many more examples and testimonies could be found to show that by the launch of the euro French portfolio management companies believed that the best way to organise was through a structured process, not through the use of gifted fund managers. Indocam explained that its process operated in three steps: screening of the investment universe, stock evaluation and inscription on an approved list, and portfolio construction (Indocam, 2000). This sequence is identical to the description we gave in the last chapter of the Anglo-Saxon model. The overall picture in the industry shows therefore that the business has been divided between more people with a strict division of labour; and, as we will explain later, with a pre-eminence of *organisational routines* over individual talent. By 1999, a majority of companies in the industry had formally designed some investment processes, with several steps, as in the Anglo-Saxon model. As *A.*, vice-president of an asset management firm, explains:

> We developed rigorous methods, in the American way. The whole asset management process becomes standardised: there is a norm for the investment policy, for the implementation of a value by the investment committee, market tables are introduced, currency and interest rates tables, sometimes with complex analytical techniques. The whole chain is pervaded with quantitative methods and with financial analysis. It becomes a systematic work organisation; it is Taylorism, industrialisation. It is a production process. Quantitative methods have not evolved so much: it is about managing in efficient markets, which means supposing that no analyst is stronger than another; you try to follow and to anticipate the formation of a new consensus.

While the fund manager in the French asset management industry of the 1980s was doing almost everything, by 1999 he had become part of an organisation, in which a strict division of labour determined his role and responsibilities. French asset management companies had become factories, which produced investment decisions through a series of standardised operations (economic research, buy-side analysis, committee, portfolio management, performance review and adjustment), as described by the people interviewed:



Clearly this diagram shows something very similar to the Anglo-Saxon model, which suggests that hypothesis H1 applies here. Moreover, an important change by 1999 was the appearance in the business of new types of professionals: sales people and buy-side analysts.

Along with dedicated economists, these analysts processed information, which was then analysed by the investment committee. These new functions and the new organisation undermined the supremacy of the former "divas", the fund managers.

2.2. Hierarchy and control

This new conception of control went along with a new hierarchy. Fund managers had lost their privileged position, to the benefit of top managers, sales people and controllers.

The first important change in terms of hierarchy and control concerned the CEOs of the newly created asset management subsidiaries. When investment companies became subsidiaries, and began to recruit people and develop their own resources and gain strategic independence, it is unquestionable that the bosses of these companies increased their power. From simple managers of a department in a bank or insurance company, and a department that was relatively small in terms of both resources and overall turnover, they became chief executives in a new and growing industry, with the chance to put their strategic ambitions into practice. Moreover, the introduction of an investment process, with clearly defined roles and responsibilities, established them firmly in command. We will see in the next chapter how they managed to conquer this leadership both at the level of their company and at the professional level. The second change concerns the arrival of new employees, who took a series of activities away from the fund managers.

When asset management subsidiaries were created, around 1996, some people were hired to develop institutional sales, a logical implication of the new *entrepreneurial synthesis*. These sales people took over contacts with customers; fund managers therefore lost this role and consequently some organisational power. This change could be seen in the hierarchy, as *B.*, former marketing support manager, explains:

> There was a new equilibrium, which was not the same as before, where the sales and marketing people had a more asserted role. For instance, in the board of directors, there was the president and two other members: the chief of asset management, and the chief of marketing and sales.

The new importance of the sales dimension was the first blow to the position of the fund managers. But the establishing of an investment process was a further attack on their arrogant independence. At the same time as these new processes were being established, it became clear that the new marketing focus also required the development of the capacity to offer client-support. More precisely, people started to realise that the business was not only about managing funds but also, like any business, about finding new clients, developing new products, providing services for pre-sales (e.g. advertising brochures, tenders) and for after-sales (reporting, performance measurement). The new *conception of control* required the business to hire other staff who could supply such information and provide client-reporting and marketing brochures. This is how B. relates the decision to create the unit he was to run, which was in charge of gathering information to publish leaflets and reports for the sales people:

> In my opinion, the decision was pushed by the marketing and sales people. (..) The marketing [department] did a survey of institutional investors. Performance ranked first, but just behind was client information.

Here we see how deeply political and cognitive the change of *conception of control* was. Creating these new functions of sales and support staff was not only a response to the perceived best way to organise, but also a progressive take-over by a new coalition. Furthermore, once this take-over became established, the ranks of sales and support staff and technocrats made it possible to control the work of the fund managers and to make sure that they respected the instructions and guidelines set out in the investment process. Support staff started compiling data and files about fund managers' performances and investment choices, and comparing them to the recommendations of the investment committee. J-F explains how the rationalisation process trapped fund managers:

> We created a function for economic analysis in each sector. We do performance attribution; we may notice that the selection of securities in a sector was regularly poor over the last two years. We may notice that this is related to one particular fund manager. Every month, there is a performance committee, with the top management of XX Asset Management, the fund managers and the chiefs of the asset management, and we analyse performances. There may be some tension; it is a serious issue. Things are really controlled. Before, fund managers used to be freer... The first performance committee went wrong. The fund managers refused to discuss and said something like "who are you to put your fingers in my own business?". *P [the CEO]* is present; it is rather solemn, even if we try to make things easy and even if I give the information beforehand to the fund managers so that they can prepare themselves.

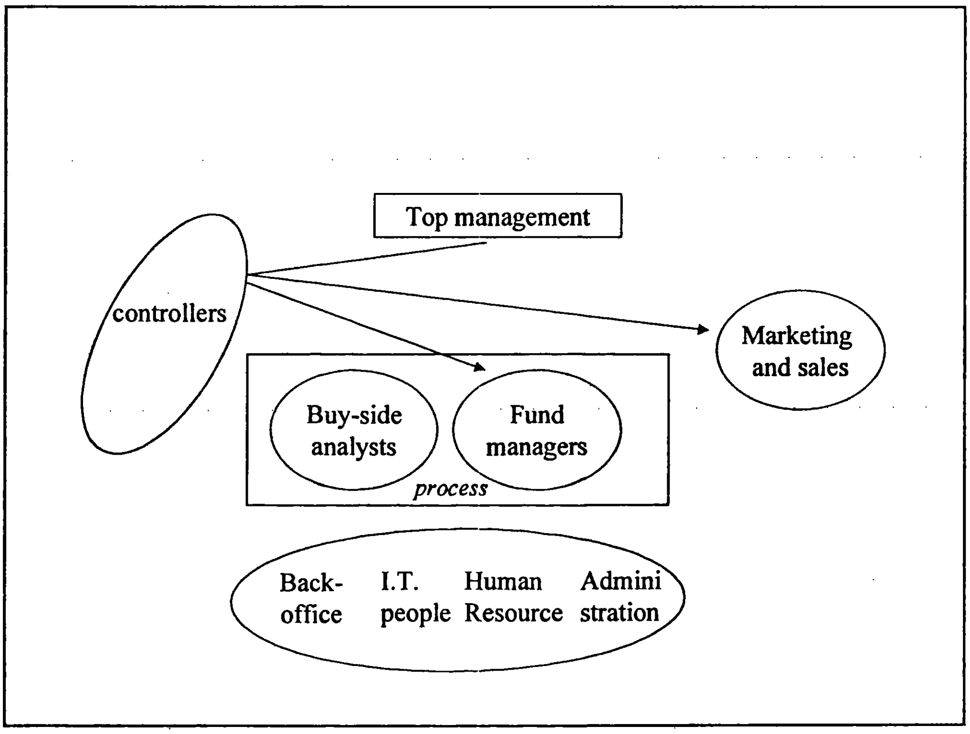
As should be obvious, this new organisation of the work did not leave fund managers in the most comfortable of positions: on the one hand they were limited by the restrictions imposed in the investment process, and on the other they were controlled through committees and performance measurement ratios. With the new *conception of control*, managerial power was taken away from fund managers. This confirms our theoretical expectation that political and cognitive dimensions are related and that a coalition can only dominate when it embodies the legitimate *conception of control*. The new situation was not accepted easily by the fund managers, as this director explains:

> The oldest fund managers do not feel at ease in the organisation. They are not divas, but they have to change their perception of work; when you have 20 or 30

years' experience, that is difficult. They are still here, but an important effort was made to transform their practices.

The change in the *conception of control* brought a new hierarchy and control, as illustrated in the following diagram. We can see that the fund managers were now constrained in many ways, through the investment process and through the actions of the controllers. Top management was more assertive, as were marketing and sales people. Support staff still had a subordinate position.

Figure 23: Hierarchy and control in French asset management firms in 1998



Here we can see how the methods of calculation and of accounting not only supported the new *conception of control* but also helped make it operable (Miller and O'Leary, 1990, 1994: 41). Calculating devices, such as performance measurement and benchmarks, had an influence at a distance (Latour, 1987; Robson, 1994), and made possible effective control and supervision of fund managers. They also made any questioning of the new organisation structures impossible (Miller, 1994: 3-4). The former core-coalition of fund managers was now in competition with financial analysts and with marketing and sales, and under the grip of the controllers. Another dimension of this new corporate hierarchy relates to a radical change in the management of human resources, which by 1999 had become very different from the French model.

2.3. Human resource management

Human resource management in the French model was very constrained and followed the rules of the banking or insurance collective agreement, but by 1998 French portfolio management companies had adopted practices similar to those of the Anglo-Saxon model. Even though interviewees did not recognise it as the first motive for de-merger, for which they quoted ethical or strategic reasons, human resource management was also undoubtedly part of the equation. Three elements can be observed: increased flexibility, performance-related pay and the use of the external labour market. The patterns of the Anglo-Saxon model can be seen here, but once again we will point out differences of detail within an overall resemblance.

2.3.1. Flexibility

The first element was increased flexibility. This is what *J*, human resource director in an asset management firm, explains:

> The bank was trying to escape the juridical framework of the banking collective agreement, a very heavy framework. (...) By simplifying, by increasing flexibility, one reduces labour costs. We also kept vested benefits. (...) We took rules similar to those of the banking collective agreement for allowances, maternity leave, part-time. The statute is close but different from the banking collective agreement. We adapted the banking system to make it simpler. Small differences exist for the calculation of holidays. Also, we are paid in Francs and not in "bank points".

Detailed examination of the conditions of employment in the newly created subsidiaries shows that the changes were far-reaching. The first important element was the adoption of a new statute for personnel. When subsidiaries devoted to asset management were created, their employees could be given a new statute, different from the banking or insurance national collective agreements. Company-specific agreements were hence designed for personnel matters; these were more flexible and more to the advantage of the employer.[36] This meant more flexibility in hiring and firing, in general working conditions, and in pay and bonuses. It also meant a reduced role for employee representatives, and in particular trade unions, whose role had been important in the collective agreements. We will see in the next chapter how unions tried to resist the move through various legal challenges. Some companies were more radical than others in this process of transferring employees from a banking/insurance

[36] One interviewee even said that in 2000, some employees had tried to involve trade unions, after a few sackings had taken place in a subsidiary of a retail bank and revealed the lack of protection in the new statute.

collective agreement to a new and more flexible personnel statute. Some decided to transfer all their employees to the new statute, while others transferred only those whom they regarded as the core employees of the asset management business, as *A.* and *J.* explain:

> We proposed to the employees that they resign from the bank and get a new contract from the asset management firm. Today, 100% of them are employees of the asset management subsidiary. *A.* (CEO of an asset management firm)

> 360 persons were transferred to *XXXX*. Two groups of people: on the one hand, the core-business people (asset managers, negotiators, top management, actuaries, sales people) were obliged to take up the new statute. This represents 130 persons, mostly managers ("cadres"). The other employees, who had horizontal jobs that can be found in every company (information technology, accounting, human resources etc...) and who are rather non-managers, were told they had a choice. They could leave for the asset management subsidiary and not come back to the old status, or they could be transferred to *XXXX* and keep the old stature. 170 persons chose to keep the old statute. (*J.*, HRM director)

In other words, through the creation of new subsidiaries, French asset management was able to get away from the restrictions of the national collective agreements and adopt more flexible human resource management. The fact that not all employees agreed shows that the new statute was not more favourable to employees. In fact, it now looks closer to the practices of Anglo-Saxon countries, even though French labour law still prevents a perfect duplication. The new statute also opened up the chance of higher pay, as a trade union representative told us. In the French asset management industry of 1999, pay is no longer decided by basis points; it is related to performance.

2.3.2. Performance-related pay

We explained earlier that in the French model of the mid-1980s pay was based more on education and seniority than on performance, and that salaries tended to be lower than in the Anglo-Saxon model. By January 1999 the situation had changed.

After de-merger, pay in the asset management subsidiaries was higher than in the bank or insurance group, as this human resource manager explains: "In general, basic salaries are higher than in the mother company". Apart from basic salaries, the structure of pay was also different and the use of bonuses was widespread. The two categories of employees which received the highest bonuses were fund managers and sales people. But most employees in the asset management firm had some bonuses too. And it is particularly noticeable that pay was now based on performance, as these professionals explain:

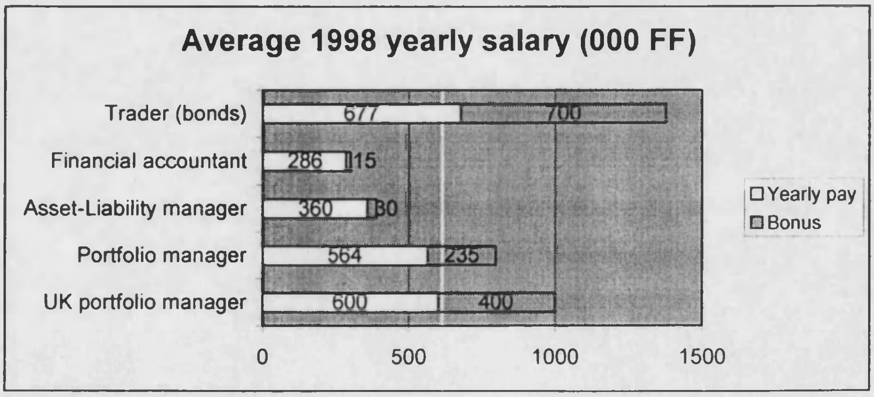
> There is an important portion of variable remuneration, up to 50% depending on corporations, with an average of 25%. What has justified higher remuneration is that one is measured against a benchmark and against competitors. (..) Pay is higher in the finance sector, compared with maintenance functions; that's because

we are measured against a number. There are two communities who in theory can earn more money than others: finance and sales people. In both cases, performance is measurable; it is a source of risk and of profit. (Director of a subsidiary of an insurance company)

What is completely different is that there are bonuses, and variable remuneration, which is largely superior to what is given in the bank. (..) We have encouraged the development of variable remuneration, like in the Anglo-Saxon system. Variable remuneration can represent 100% of the salary. This is now almost taken for granted. Bonuses are discretionary, uncertain and based on performance. We will take into account the rankings, like Europerformance. The one who is placed higher in the ranking will have better pay. We also look at the development of new contracts from sales people. (...)

These changes are particularly important, in the light of the situation in the mid-1980s. By 1999 French companies had radically altered their human resource policies; performance-related pay had become the norm. It is all the more interesting, in that this trend was not to be observed on anything like the same scale in retail banks or in the rest of the economy. *O.*, working in the human resource department of a retail bank, told us that the asset management subsidiary and the retail bank had started to represent two distinct worlds in terms of human resource. On the one hand, the retail bank was still based on the collective agreement and seniority and resembled closely the public sector, all of which elements categorise the French model. On the other hand, the investment bank had higher salaries and high labour turnover and made use of the external labour market. *O.* quoted some data from a market survey carried out by Towers Perrin, an American Human Resource consulting firm, of salaries paid in the French financial sector in the year 1998. The results from this survey give a picture of the average salaries by functions. We chose four comparable categories, requiring similar technical skills and at a comparable level of seniority: two in retail banking (financial accounting and asset-liability manager), one in a stock exchange company (trader), and one in asset management (portfolio manager). To this we added an estimate of the market value of a similar position in London.

Figure 24: Comparative average salaries in 1998 between selected financial jobs



Source: interviews and author estimations

Clearly there were great disparities both in absolute terms and in terms of the pay structure. While French retail banking remained tied to the French model of the mid-1980s, asset management had moved towards the Anglo-Saxon model, even though pay in it had not reached the same levels. It should also be kept in mind that 1998 was a peculiar year on the financial markets, with exceptional returns and therefore high bonuses for stockbrokers. This explains how it was possible for French brokers to earn so much, more even than fund managers in London. The situation was be to very different in 2000, a year in which financial markets were very depressed: fund managers in London had approximately the same pay level as in 1998 whereas French stockbrokers had almost no bonus, and hence possibly lower total pay.

2.3.3. Use of the external labour market

The last striking change in the human resource management of French portfolio management companies is the pre-eminence of the external labour market over internal careers.

Asset management companies' autonomy from the rest of financial services resulted in the development of a specific labour market dedicated to asset management professionals. As this CEO of an asset management firm explains:

> We recruit senior and junior managers. Their career is to be done in the asset management business [only]. We try to retain employees as much as possible. There is a larger turnover between portfolio management companies than between portfolio management companies and banks.

Several interviewees recognised that asset management had become appealing to young graduates, who now apply directly for fund management or marketing positions. These asset management professionals tend to develop specific skills, because their career is to be spent in the sector. Consequently, the SFAF (the French Society for Financial Analyst) is heavily used to train them as financial analysts, as this marketing director in an asset management firm explains:

> SFAF is almost a pre-requisite. Young staffs always go to the SFAF, even though –because of buffers in their in-takes- they cannot do it straight away. You cannot hope to remain fund manager durably without having been to SFAF.

Similarly, sales people who specialise in institutional investors are highly sought after. There is competition among companies to recruit good professionals and to equip their teams. Asset management professionals spend their career in this area and switch from one company to another, in an attempt to take advantage of the shortage of competent professionals. There are many cases in the market of professionals who have moved from company to company. For instance, Marc Sinsheimer, who represents the American Investment Management Research association in France, worked for CLAM, then BNP Gestion, then Paribas and finally returned to CLAM, all within eight years; even in the Anglo-Saxon business system this would seem hectic. External mobility is a real option, all the more so as head-hunters in France have developed new approaches specifically to recruit asset management professionals (Spencer Stuart, Egon Zehnder, Korn Ferry in particular). One fund manager also pointed out that asset management professionals were highly "visible" because their names appeared in various professional yearbooks. Therefore, competition is high between companies in order to attract the best resources; and this leads to rule by the market, which means that certain prices must be paid to hire certain profiles. We have already mentioned the salary surveys which are used to clarify the market value of certain jobs; but the trend is general and French companies realise they must pay the market price if they don't want to lose their employees. As this director of an asset management firm explains:

> You have to offer fund managers the same conditions as other companies. Otherwise, they will not come!

Some companies even use stock options, in order to motivate their employees and to increase their attachment to the asset management firm.

2.3.4. Conclusion

In summary, we can say that the French asset management industry has developed new patterns regarding human resources, in line with the Anglo-Saxon model. Flexibility, higher pay, performance-related pay, and the use of head-hunters and the external labour market are all to be found, resulting in a situation very similar to that in Anglo-Saxon markets. Such a result is remarkable, because it shows a radical departure from the dominant patterns of the French business system and confirms our conclusion that French asset management has adopted the Anglo-Saxon model. But to be precise, we should still recognise that the model has not been adopted in its entirety.

Admittedly flexibility has increased, but as some professionals pointed out, French labour law still applies, and in the extent of its protection of labour and the associated constraints on employers it is still very different from the practice in America or Britain. Generally speaking, pay is still lower in Paris than in London or New York and the asset management labour market in France still lacks the size and density of the Anglo-American ones. From our hypotheses, we would therefore suggest that French asset management has become similar to the Anglo-Saxon model, but in its own milder version. We can now conclude the analysis by looking at *organisational routines*.

3. Organisational Routines: similar with some nuances to the Anglo-Saxon model

At the third layer of our analytical framework, the *organisational routines*, French asset management companies have been radically transformed. Whereas the French model of the mid-1980s was based upon informal networks and personal capabilities, by January 1999 companies had well-defined bureaucratic rules, which specified how fund managers should make their investment decisions within the investment process. These new practices went together with new instruments, using information technologies, performance measurement norms and risk-management ratios. Customer relationships had also been transformed. In place of personal trust and contacts, companies applied rigorous selection methods and used investment advisors and invitations to tender. Even though this cannot be said of the entire market, it is another indication of how consistent the adoption of the Anglo-Saxon model has been.

3.1. The development of procedures and Information Systems

Organisational routines in the French model were located in individuals' expertise, or in the informal networks formed to collect information about attractive investment opportunities. By January 1999, the situation had altered radically, and once again had become similar to the Anglo-Saxon model. Individual fund managers were no longer at the core. The process and its various procedures had imported *organisational routines* into the organisation. A set of norms and standards had become the frame of action.

3.1.1. Routines are now located in the organisation

First, routines in French asset management firms had moved from gifted individuals to the organisation. While the French model was based on the individual talent of the fund manager, the new structure, in which an investment process dominates, is based on collective decision-making:

> Today, decisions are collegial, there are committees. (..) A fund manager might not agree with the committee's decisions, but he still applies them. (Director of an asset management firm)

This process consists of a series of rules that the fund manager must apply. He is under control, and follows tight prescriptions regarding the securities he puts into the portfolio. *M.*, a junior fund manager, explains:

> The process means that they don't want star fund managers... because if the star leaves, you are in trouble. Therefore, it is necessary to have the value added coming from the company rather than from individuals. They try to structure the decision-making so that anyone is a mere pawn that can be moved around.

M. then describes how in his company the process starts with a strategic committee, made up of economists and senior fund managers, who analyse the current economic situation and make allocations by countries. For instance it may be decided to invest less in Japan and more in Germany. Then, an investment committee, on which *M.* may sit, decides which sectors should receive higher or lower weightings. The committee may decide to invest more in automotive and less in chemicals. Finally, within every sector, the internal (buy-side) financial analysts have recommended some securities and set up an approved list. For instance, VW may be rated 'buy' and BMW 'sell', meaning they should pick VW in the German automotive industry. Consequently, given these indications produced by the process, "you only need to apply [them] and you have a portfolio", says *M.* The individual fund manager activates *organisational routines* when performing his tasks; he does not rely so much on his personal talent. Moreover, the investment process is combined with new tools to support decision-making and to give it some scientific credibility.

Two new elements can be found in French asset management companies in 1999, as regards fund management techniques. First of all, the use of financial mathematical models can be observed. These models are based upon New Portfolio Management Theory in particular, and they aim at forming so-called efficient portfolios, with the best possible diversification. By January 1999, a large numbers of French firms used such tools to support the work of their fund managers. The second type of new instruments relates to databases, which contain much information about securities and can simulate price variations, using what is often called 'technical analysis'. These techniques are fundamentally different from the practices of fund managers in the mid-1980s. The latter focused exclusively on fundamental analysis (i.e. company accounts) or macro-economic analysis, which remain the dominant techniques used but are by no means the only ones. New information systems have changed the *organisational routines* with the result that machines and programs have taken on considerable importance in the investment process itself. The role of the organisation is more important than the role of the individual fund manager and fund management finds its fundamentals in academic finance, as in the Anglo-Saxon model. But there are more than procedures in the new work organisation of French asset management in January 1999.

3.1.2. Measurement and calculation tools

A second element in the new configuration of 1999 is the extensive use of measurement and calculation tools. This means in the first place a series of performance measurement and risk management tools, and secondly international standards and norms.

The French model was thoroughly transformed by the introduction and widespread use of the benchmark as an instrument to measure fund management performances. Whereas clients used to give mandates based on the prudent-man rule, by 1998 asset managers were given precise targets, based on benchmarks. A benchmark is a stock index made up of specifically chosen securities and intended to show market trends. For instance the Dow Jones Eurostoxx index contains 325 securities, including some of the largest European firms in selected sectors, and fund managers working in the Euro-zone will typically be given this index as a target to beat. Instead of being judged by pure returns or by rankings against competitors, fund managers are judged from the position of their funds in relation to the benchmark, in terms of value creation and of risk. A series of ratios is used to monitor their performances. The following table is an extract from a client report, made by the French company SGAM, and it shows the ratios relating to performance analysis:

Table 11: Performance analysis

Information ratio	-0.65
Tracking error	4.27%
Correlation	0.97
Beta Bull	0.92
Beta Bear	1.01
Sharpe ratio for the fund	1.29
Sharpe ratio for the benchmark	1.41

As a result, and thanks to new software, it is possible to measure the overall performance of the fund continuously. As *M.* explains:

> Everyday at 6:30pm, there is a file coming up with the names of all fund managers, and their performances for the day, month, year. (..) If you are too far, after one week, someone comes and see you.

Here again we can see what we said earlier about the *conception of control,* and how calculation tools made it possible for top management to dominate the coalition of fund managers. The importance of performance and risk measurement tools was one pattern in the Anglo-Saxon model. It appears that French companies have embraced it too. The move towards more rules and procedures culminates with the adoption of American norms for performance measurement.

3.1.3. Norms and standards

The final stage in the process of adopting Anglo-Saxon norms and practices is the implementation of AIMR (or GIPS) methods of performance measurement.

These norms come from the United States and their objectives are to give a clearer comparison of performances, by setting-up composites by asset category. As this manager in charge of reporting explains:

> The ultimate stage is the norm imposed from outside, like AIMR. (..) Advanced norms allow clients making comparisons. The main characteristic of AIMR is to create pure composite funds by asset category. (..) The objective of AIMR was to take part in international invitation to tenders, in order to be recognised as a player that could attract investors. It was an obligatory move in terms of marketing to get access to international invitations to tenders.

It is striking however that such a norm is imported from Anglo-Saxon countries. In fact the GIPS norms (Global Investment Performance Standards) were developed in a collaboration between the American association AIMR and some European and Asian investment professionals. In short, these GIPS norms adapt the American standards to international funds. As a consequence, a number of portfolio management companies now strive to be AIMR certified, which means that they have composites complying with AIMR standards. We should also mention, to complete the analysis, that the French asset management association (AFG-Asffi) developed new codes of conduct in 1997 and 1999. And these codes, strangely enough, embody many of the recommendations of the Anglo-Saxon professions, especially in terms of independence and resources. In summary, we saw in the examination of French *organisational routines* in January 1999 that they have been radically transformed and look very much like those of the Anglo-Saxon model. This is also true, with some differences and reservations, of the routines relating to customer relationships.

3.2. Customer relationships

The final element of *organisational routines* relates to the management of customer relationships. The French model was based on personal ties within established social networks, in contrast to the Anglo-Saxon model, which was based on market mechanisms and selection procedures. When we look at the situation in the French asset management business in January 1999, we notice a clear transformation. Selection procedures and consultants had become the norm, and the Anglo-Saxon model had been largely adopted, except by specific niche players.

3.2.1. From personal trust to selection procedures and contracts

The people interviewed for this research all agreed in saying that the conditions of competition had changed between the mid-1980s and 1999, and that clients had become more demanding. Not only do clients use new selection procedures to select their asset managers, but the nature of trust is also different. It is institutionalised in selection procedures and contracts and no longer based on personal contacts.

As we were told, in the French asset management industry of 1998 it was no longer possible to win contracts over a good dinner. Whereas clients used to trust their fund manager on the basis of personal acquaintance, they now require information about what fund managers do and why. "[Clients] start to ask for explanations, they don't want romanticism". Clients, especially large institutional investors and wealthy individuals, use selection procedures and in particular invitations to tender in order to choose their asset managers. An invitation to tenders consists in a series of questions sent to a sample of investment companies. These companies have to supply lots of details about their performance and organisation, and on this basis the client may decide which company is the most appropriate to manage its funds. The manager of a French pension fund told us that he had asked for the following elements in his invitation to tender:

Table 12: Example of an invitation to tenders

General information on the company:

- assets under management
- number of employees
- details about employees
- key figures

Details about strategic asset management

- strategic asset allocation
- supervision and modifications of asset allocation
- asset allocation committee

Details about the investment process

- number of economists, analysts, actuaries
- investment committee
- portfolio managers' degree of autonomy
- periodicity of the meetings

Information technology

- resources
- software used by the company

Past performances

- details about performances by category
- rankings and comparisons with benchmark

Reporting and control

- structures of the reporting
- controls
- deontology
- internal audit

What is the proposal of the asset manager?

Fees

- management fees
- custodian and brokerage fees
- banking conditions

Source: interviews

In general, asset management firms are given a few weeks to provide this information. After they have done so, some of them (normally between five and ten) are selected for an oral examination, in which they have to present their company and explain how they would manage the portfolio of assets. Invitations to tender are very often arranged through investment advisers, or so-called consultants. These consultants, often from Anglo-Saxon countries, have a particular expertise in drawing up questionnaires, analysing the answers and making the selection. The whole procedure is very strict and involves a lot of rules and formats and leaves little space for amateurism. Any company that does not comply with the requirements set up by the clients and its advisors has no chance of being selected. As this marketing director explains:

> The task of consultants, which is very developed in the US, is to analyse the asset management firm, in order to measure the durability of its performances. The 4 P (process, people, products, and price) is their motto. It is necessary to present a process to them and not individuals.

The consequence of these new procedures, based more on objective measurement and selection than on inter-personal trust, was a substantial change in the organisational routines dealing with client relationships in French asset management companies. The logic of honour we identified in the French model had largely disappeared in the French industry of 1999. Instead, companies had developed new capabilities, new *organisational routines*, to deal with customer relationships. The nature of trust had evolved towards the Anglo-Saxon contractual idea, as asset management director *P.H.* explains:

> Everything was written and we pledged to do what we say we do. This is a proof of trust, because the institutional investor makes a choice by looking at past performances but also by looking at the investment process.

From trust based on personal contacts and logic of honour, French asset management has adopted the Anglo-Saxon model of trust institutionalised in selection procedures and contracts. The consequence for firms' *organisational routines* is however the need to have all the required information available.

3.2.2 New information systems

Information systems have been developed not only for fund management, but also for customer relations. In French asset management firms new organisational routines have been developed to carry out selection procedures and contractual requirements.

In order to be able to reply efficiently to invitation to tenders, (the larger) asset management companies have set up dedicated teams, whose role is to collect information from various parts of the company and use it to give the best possible answers to the numerous questions posed in the tender document. With new technology and the development of specific software, databases and other computer tools, firms have developed a systematic approach and new information systems which monitor closely the results of the company. As *P.H.* explains:

> To position ourselves towards institutional investors, we adopted a highly structured organisation, with sales teams dedicated to institutional clients, marketing teams that take care of invitation to tenders, of reporting and of all the information logistics upon which sales people base their selling proposals. There are teams only devoted to the development of new products.

In other words, because of the need to respond to invitations to tender, investment companies have been required to think about themselves as an information system. New routines have been established which deal only with customer relationships and which have the support of new technological tools. It is no longer personal trust, but a market mechanism of selection on the basis of systematic measurements. This shows how different the situation has become from the model of the mid-1980s. Interestingly, however, some interviewees also pointed to a few remaining French peculiarities, which go beyond the norms and the objective measurement.

3.2.3. Some nuances

A few interviewees gave a more subtle description of customer relationships in French asset management in 1999. It seems that for a certain category of market players, and especially small pension funds, corporate ties and personal relationships still matter.

There was a perception among interviewees that some clients, especially small pension funds, use selection procedures in a way that leaves some room for the old networks; some invitations to tenders may in fact be bogus and purely formal, in order to justify the choice and preferences of the clients. This is the comment of a director in a subsidiary of an insurance group:

> Some invitations to tenders are slightly "fake"; there is politics involved. I went to an invitation to tender made by a [French] Pension Fund for independent practitioners. They sent an invitation to tender to the whole market but they said to me "in any case, we would not have given it to insurers; it was just to see how they are positioned".

These elements do not prevent Anglo-Saxon practices from being firmly established in the French asset management industry of 1999. But they do reflect the historical contingencies of the French model. The old logic of personal trust may have been replaced by trust institutionalised in selection and control instruments, but the enforcement of the new contractual logic may still be subject to partisan interpretation. Even consultants recognise that the implementation of the Anglo-Saxon model of invitations to tender may include a subjective element and reflect historical contingencies:

> I worked on an invitation to tender with a pension fund; they did suggest some names I would not have thought of. In fact, one of the portfolio management companies was linked to a retail bank that had been financing the industry of the pension fund. There were links between the pension fund and the bank. (President of an investment consulting firm)

In other words, even if *organisational routines* in the French asset management industry replicate the Anglo-Saxon model, they do so in a peculiar way, which is not unrelated to historical habits.

To conclude our analysis of the French asset management industry at the launch of the euro, we can say that we have produced a consistent picture of the new situation. Change is radical in comparison to the French model. Asset management is operated in autonomous subsidiaries, along an investment process, and on the basis of procedures and norms in a logic of contract. The three layers (entrepreneurial synthesis, conception of control and organisational routines) are once again intimately related and reinforce one another in producing a picture that is very similar to the Anglo-Saxon model. The result is surprising, we insisted, because it contradicts the idea that national distinctiveness would persist through institutional interdependency. That said, we have also shown some minor differences and variations, indicating that the French asset management industry is yet not identical to the Anglo-Saxon model. Moreover, we can now set out two puzzles, which call for a new understanding of the adaptation process.

4. Two puzzles to complete the analysis: differentiation and timing

Our analysis has revealed that the patterns of organisation and behaviour of French firms in the asset management sector at the launch of the euro contrasted strongly with the French model of the mid-1980s, and had become very similar to those of the Anglo-Saxon model. Given our starting point, embeddedness, and the design of our theoretical framework, using the business system concept, this result is rather surprising. It seems to contradict the proposition that systemic interdependencies would prevent French firms from departing from the dominant patterns of the French model. We now move one step forward and start examining the processes that led to this result. This will lead us, in the next two chapters, to a novel understanding of organisational adaptation, as embedded in the constitution of a new organisational field. In this paragraph, we identify the first clues. We will briefly show that France as a whole is still distinct from Anglo-Saxon countries, and specify the two puzzles in the transformation of the French asset management industry: its timing, and the fact that some firms have indeed not changed.

4.1. France is still a distinctive business system

One possible interpretation of our findings concerning the asset management sector might be that the French business system as a whole had changed radically and become similar to the one in Britain or the US. But this is an untenable interpretation. In the French economy as a whole there remain patterns of employment, corporate governance and work organisation very different from those in Anglo-Saxon countries.

Barsoux and Lawrence, in the preface to the second edition of their book on French management, point out that over their ten-year familiarity with business and management in France, French management has seemed remarkably stable, despite having had to face up to dynamic change (1997: x). Even if the French model of capitalism may have evolved somewhat, it would be misleading to declare an end to French exceptionalism, if only because of the persisting role of the state (Schmidt, 1997: 137). In financial services, recent events have shown that Anglo-Saxon corporate governance was still not the predominant way of doing things in France. For instance, when BNP and Société Générale launched a competing take-over bid for Paribas, in March 2000, many international observers were astonished to see how the Bank of France tried to mediate between the three parties (*Le Monde*, June 23, 1999). When ING attempted to acquire CCF in 2000, the move was blocked by the French authorities, who seemed unwilling to let any foreign player enter the French financial system.

In terms of organisation too, analyses show that French retail banks exhibit distinctly different patterns (O'Reilly, 1994). Recent surveys illustrate how labour law, representation and employment structures differ between the French and Anglo-Saxon business systems. Careers in French retail banks and insurance are still based on internal mobility: the average seniority in French insurance groups was 13.7 years in 1999 (*Observatoire des métiers de l' assurance,* 1999 report). A study by CEGOS shows that performance-related pay accounted for only some 5% of total pay in the French business system in 1999, only 1% more than in 1991 (*Le Monde*, December 12, 2000). To measure the gaps between French and Anglo-Saxon capitalisms, we need only recall that in 2000 France introduced in a 35-hour working week regulation, something unique in the globalising economy! Furthermore, it appears that some asset management firms still operate according to the French model of the mid-1980s.

4.2. Differentiation: some companies have hardly changed

So far our analysis of the French asset management industry in 1999 has led us to the conclusion that companies had adapted to change by reproducing the Anglo-Saxon model, albeit with variations in the detail. But the real picture is more complex: a fraction of the industry has actually changed very little from the French model. The reality of the industry is one of a differentiation between firms operating like Anglo-Saxon companies and those which have retained the French patterns of the mid-1980s.

The latter belong to the group of independent asset managers. They may be related to former brokers (*agents de change*) or families. Their *entrepreneurial synthesis* has not changed since the mid-1980s: they sell their products mostly to private investors and to small institutional investors. In terms of distribution, they rely on direct sales forces or independent financial advisors. Judging from our sample, and from the AFG-Asffi database, their staff varies from

10 to 70, which means that they represent niche players in the French asset management market, and therefore not the dominant practices in the industry. In terms of *conception of control*, they still operate as in the French model: without investment processes or tight control, and with autonomous fund managers pre-eminent. While *L.* recognises that fund managers have considerable autonomy in their decision-making and are not constrained by tight procedures, *B.* describes as follows the work of the fund managers in his firm:

> There are weekly meetings, to validate common positions and choices of stocks. However, there is a strong autonomy among fund managers. When they have heard every one's opinion and a consensus has been reached, it does not mean that a fund manager, who has his own theory, will not apply his ideas to his clients' portfolios.

There is no strong division of labour, even if they probably have larger sales forces than in the mid-1980s and more people working in terms of controlling. But in general their practices are surprisingly in line with the French model, to the extent that *B.* underlines: "There are in our asset management a large part of methods that have not evolved since 20, 30 years". And on the other layers of analysis, the same conclusion can be reached: this segment of the French asset management industry has not fundamentally changed and still follows the French model of the mid-1980s.

In terms of routines, the companies admit to making little use of quantitative methodologies. The work of their fund managers is based on fundamental analysis, not on databases or computer models. But all these companies emphasise that the results are "just as good" as those of firms using investment processes. The last element, customer relationships, is even more interesting. It appears that these companies rely on a faithful customer basis, consisting mainly of elderly private individuals. And, according to *L.*, the personal relationships of the top executives, and especially their address books (*carnet d'adresse*), have a key role, as in the French model. But they also rely on small institutional investors, both small and medium companies and small pension funds. Most of them acknowledge that they seldom reply to invitations to tender, which results in a differentiation in the market. As *M.* explains:

> Our firm, like small firms, has a strong human dimension. It is different for the large companies, which work around an investment process. (..) To describe the offer, we would say that it is organised around two poles:
> - on the one hand the industrial offer, with large companies having internal processes and targeting a large customer basis
> - on the other hand the craft offer, with customised services for targeted clients.

Another interviewee recognises some kind of systemic interdependency, by saying that small clients go with smaller asset managers. This differentiation within the French market is particularly interesting, because it suggests that the French model of asset management is still alive in 1999. It confirms our suggestion that the French business system is still different from the Anglo-Saxon one.

In conclusion, we have found a first puzzle in the French asset management industry of January 1999, that some companies have adopted the Anglo-Saxon model while others continue to present the French model. Firms behaving in the Anglo-Saxon way are thus deviant from the French business system, even though they represent the dominant group in the asset management sector. The proposition we will develop in the remaining part of the thesis is that such a result is possible because the French asset management industry has been constituted as a sub-system. With a series of rules and behaviours, inscribed in trans-national networks and sustained through new institutional arrangements, it is possible for French asset management companies to behave differently from the dominant patterns of the French business system. In other words, our result would not contradict the importance of national institutions; it would rather point at some discontinuity within business systems and illustrate some of the mechanisms through which organisational fields embrace new practices and become structured. A second puzzle will give further evidence to this interpretation: it appears that change came suddenly in the French asset management industry.

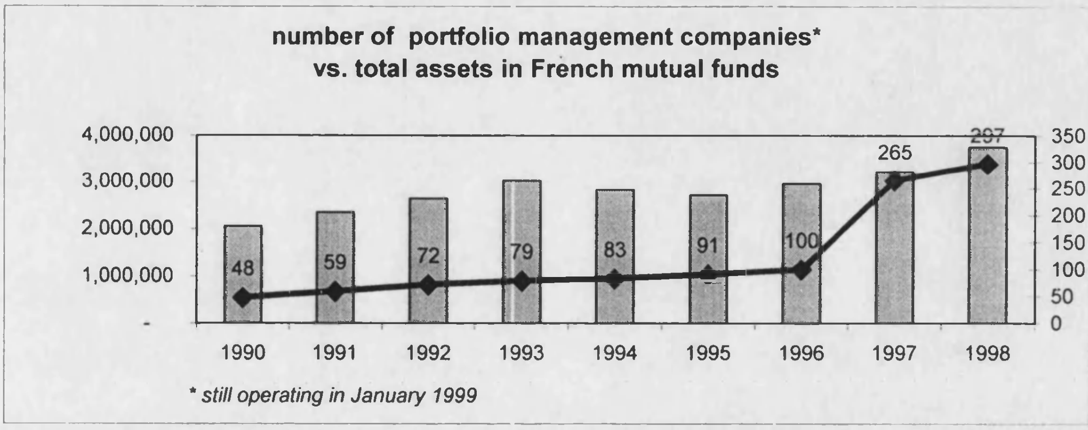
4.3. The timing of the transformation

Another surprising element in the case of French asset management is the timing of the changes. In fact, when we look at exactly when autonomous asset management companies were created, a point which indicates the adoption of a new *entrepreneurial synthesis*, we see that in most companies changes occurred after 1996, and not from 1984 when the environment started to change, as we might have expected.

The creation of autonomous asset management subsidiaries is very illustrative. Paribas was the first company to create one, in 1988. Then followed CCF in 1992, and AXA, CDC and UAP in 1993-94. But these were the only companies to do so at this time. After 1996, in contrast, there was a massive creation of asset management subsidiaries, in all retail banks and insurance companies. Such a time delay can be observed in the following diagram, which shows the year of creation of the 297 portfolio management companies in business in January 1999, and measures it against the total assets managed in French mutual funds, which gives a fair indication of the market size trends. The creation of companies was fairly steady and followed the trend of the market except in 1996-1997, when more than 150 portfolio management companies were created, with no comparable trend in the market size. And most of these new companies appear to have been related to a banking or insurance group:

according to Eurostaf (1998), only 15% of market players had de-merged their asset management activities in 1996, against the quasi-totality today.

<u>Figure 25: 1997 marks a sharp increase in the number of portfolio management companies</u>



Sources: AFG-Asffi 1999b, AFG-Asffi annual report 1999, COB and author.

Nor can the effective establishment of an external labour market dedicated to asset management professionals be traced back beyond 1997, when these autonomous subsidiaries were given the freedom to recruit and no longer had to rely on the internal market of their banking or insurance group. The delay between the moment of legislative liberalisation, which occurred in 1984-1987, and the actual organisational change is therefore noticeable, as *M.*, CEO of an asset management firm, remarks:

> Honestly, changes have been less important than I expected. In 1987, we thought that everything would explode, that consultants would come very quickly, that asset management companies would get their autonomy. Today, it seems to be the case.

Even if French companies did eventually adopt Anglo-Saxon practices, it is important to know why they did *not* adopt them *earlier* than 1996. According to the professionals in the field, two events played a key role in the transformation of the industry. And both, strangely enough, happened in 1996. The first was the transposition into French law of the European directive on investment services (the MAF law), which gave autonomy to asset management, by creating the portfolio management company with extended object, and by giving asset management a supervisory body distinct from that of banking: the COB. Interestingly, this impulse towards the autonomy of asset management was not in the original directive, but was added by French regulators. The second element was the publication of a report, the Paris-Europlace (La Martinière) report on the asset management industry, which analysed its characteristics within financial services and argued for reforms in order to secure the international competitiveness of French asset management. Both these events took place in

1996, and only then did change become dramatic. This second puzzle is very interesting, because it supports the proposition that system interdependencies would prevent French firms from moving away from the dominant patterns of their business system (North, 1990; Whitley, 1999). Instead of contradicting this proposition, the evidence refines the implications: interdependencies do apply, but systems are not automatically watertight. They require some political pressure to secure their borders, and there can emerge new social spaces which promote practices different from the dominant national patterns. Until 1996, as we will show in the next chapter, it was not possible for firms to become too deviant from the French business system. However, after the opening of a fresh social space, of a new organisational field called asset management which was distinct from banking, insurance and stock-broking, it was possible to institute new rules and to develop new patterns of organisation and behaviour, in line with the Anglo-Saxon model. The following chapters will illustrate how adaptation processes were embedded in the constitution of a new organisational field. new legislation?

In conclusion, we have found in this chapter that none of the hypotheses designed in our second chapter matched perfectly the changes that occurred in the French asset management industry. The closest hypothesis was actually, and in a way surprisingly, the one that French firms would have adopted the patterns of the Anglo-Saxon model. They did so with some reservations and differences of detail, admittedly, but still convincingly enough to allow us to reject the hypothesis of an hybrid model. But the two puzzles we have identified -the fact that some firms still reproduce the French model, and the delay between the beginning of the changes in the French environment and the actual timing of the transformation- question the path of the adaptation processes. Once again the problem is to understand how such a result was possible. on what basis exactly?

CHAPTER VI: THE CONSTITUTION OF A NEW ORGANISATIONAL FIELD: UNTIL 1996, EXPERIMENTATION AND LEARNING

In the previous chapters we analysed the transformation of the French asset management industry. The major conclusion was that French firms have embraced the Anglo-Saxon model albeit with some slight differences, even if a fraction of the industry has retained the patterns of the French model. In the following chapters, we will focus more precisely on the adaptation processes that made possible such a result. The argument we develop is that organisational adaptation processes were embedded in the constitution of a new organisational field, which allowed firms to adopt practices at odds with the French business system. Before the recognition of asset management as a new business distinct from banking and insurance, which took place only in 1996, it was possible for only a fraction of firms to adapt and evolve, through various processes of learning or manipulation of their environment. For the great majority of firms, institutional constraints and interdependencies prevented any departure from the patterns of the French model. In other words, for the period to 1996 our research supports the claim by institutionalist scholars that organisations are constrained by surrounding institutions (Nee and Ingram, 1998: 40; Powell and DiMaggio, 1991; Scott, 1995: 112). But we will explain how firms were driven to adopt isomorphic patterns of organisation and behaviour after asset management became a distinct organisation field, with new rules copied from the Anglo-Saxon business system. In other words, in this chapter we will support the argument that "to understand the institutionalization of organizational forms, we must first understand the institutionalization and structuring of organizational fields" (DiMaggio, 1991: 267). The constitution, the structuration (Giddens, 1979, 1984) of the organisational field is a crucial step, and a step that is historically and logically prior to the processes of institutional isomorphism (DiMaggio, 1988; DiMaggio and Powell, 1983).

Until 1996 asset management was not recognised as an autonomous business in France. Most firms in the field followed the routines of the French model of the mid-1980s. However, this does not mean that no adaptation processes were taking place. In fact, even in the mid-1980s Anglo-Saxon practices were being learned, through dealings with British and American companies or acquisition of them. And some market players had already adopted these practices from abroad. Asset management professionals started to notice the changes in their environment, and they perceived tensions in the French model (Weick, 1995) which they were able to resolve by formulating solutions inspired by the Anglo-Saxon model. However, because of institutional constraints, adaptation processes were restricted to some limited learning, and did not bring any substantial change in the industry.

1. Confronting the Anglo-Saxon model

In order to understand the transformation of the French asset management industry and its conversion to the Anglo-Saxon model, it is necessary to trace the initial steps in the confrontation between the two models. Either because of their international operations and/or acquisitions, or because foreign players had entered the French market, French firms were able to see in action the practices of Anglo-American companies. They realised how different the Anglo-Saxon model was, and that it was more advanced and represented the international reference point. This resulted in an adaptive process of learning; and even, in some few cases, in an early adoption of the new practices.

1.1. Abroad: manipulation of the environment through foreign acquisitions and new subsidiaries

It may be useful to recall that in our theoretical framework we identified four adaptation processes: change of entrepreneurial synthesis, change in the conception of control, learning of new routines and manipulation of the environment (86). The last process refers to all attempts by firms to alter their environment, through mergers, acquisitions, lobbying and influence. And French firms did engage in such a process when they ventured abroad and developed important international capacities, even in the 1970s and 1980s.

The track record of French financial institutions regarding acquisitions of British or American companies is not as impressive as the German one, but it is still not negligible. In 1978, for instance, four of the world's ten largest banks were French: Crédit Lyonnais, Paribas, BNP and Société Générale (*The Banker,* June 1978). At this time they had developed strong capabilities in project finance and international lending, parallel to the international expansion of French multinationals. Financial globalisation extended their attempt to establish themselves in international markets, either through acquisitions or through the opening of foreign subsidiaries. This process of 'manipulation of their environment' was not primarily targeted towards asset management, but it created opportunities for this business too, which came into contact with the Anglo-Saxon model and was able to learn from it. This not the place for a thorough review of French involvement in Britain or America, but we will mention the most relevant points, especially given the historical connections between certain events and certain individuals.

Most large leading French banks had some kind of involvement in Britain or in America. For instance, Société Générale bought the British bank Touche Remlands in 1986 only to close it four years later, and in 1998 it acquired Hambros. In 1993 BNP launched a joint venture with Neuberger and Bauman, an American institutional asset manager. In 1991, CCF took a 51% participation in the British asset manager Framlington. In 1987 Indosuez bought a large British asset manager, Gartmore, and sold it at a very good profit in 1995. These encounters with Anglo-Saxon companies had an impact in terms of 'learning new routines': French companies drew some inspiration from the structures and organisation of the Anglo-Saxon model. A manager at Indocam comments on the involvement with Gartmore as follows:

> In terms of structure they were more advanced in comparison with us. We looked at what they were doing, and since they had partnerships with American companies, we looked at how American companies were organised.

The cases of Paribas and AXA deserve closer attention, because of the depth of the learning process and the extent of Anglo-Saxon influence. Paribas' saga in the United States is remarkable in that it resulted in Paribas adopting the Anglo-Saxon model (see next page). In 1991 the AXA group bought, with the support of Paribas, the US life insurer Equitable, which itself had a majority participation in Alliance Capital, a large asset manager in the US. As its website says, "Alliance Capital is America's largest publicly-traded asset manager and one of the most experienced investment managers in the world" (Alliance Capital, 1999). Alliance's example had a radical effect on the strategic orientation of AXA, which changed its *entrepreneurial synthesis* and recognised that it was not just an insurance company, but also operated another business which it was now able to identify: asset management. In 1994 AXA created AXA Asset Management, which later became AXA Investment Managers, and it used its American experience very much as a point of reference in creating new structures. As one of AXA's managers explains: "We are a very American group. Our presence in the US made us sensitive earlier than others". Thus, acquisitions by AXA and other leading firms gave them the opportunity to learn from Anglo-Saxon practices, and eventually to upgrade the organisation of the French structures. In the events which followed both AXA and one of its General Directors, Gérard de La Martinière, were to play a key role in the transformation of the French industry as a whole.

The inside story of Paribas and AG Becker

Paribas, from its very origins –it was jointly established in Paris, Brussels and Amsterdam- has had an international path. It founded the first French investment bank subsidiary in New York in 1970 and at the same time had some involvement in London. In the 1970s, Jacques de Fouchier, Paribas CEO, entered into a partnership with Sir Siegmund Warburg, CEO of SG Warburg, with whom he had good relations; this resulted in cross-shareholdings between the two banks. In 1974, they combined their New York subsidiaries and acquired the American investment bank AG Becker. However, differences in management, insufficient co-operation and the death of Sir Siegmund, together with the nationalisation of Paribas, weakened the partnership in 1982 (Bussière, 1992: 211, 222). In 1984, Becker Paribas suffered from the American inflation and debt crisis and the French bank finally sold Becker to Merrill Lynch (*The Banker*, February 1985). But according to Fouchier, "It proved very instructive about the workings of American financial markets". More precisely, the experience resulted in a transformation of Paribas asset management business.

There was one individual who took part in the AG Becker adventure and was to have a particular role in the French asset management industry: Alain Leclair. A graduate of HEC, one of France's leading business schools, Leclair joined Paribas in 1966 and in London in the 1970s he held some short-term appointments relating to the alliance with Warburg.. In 1982 he was sent to New York, and worked in brokerage activities with some American managers and took part in the creation of an asset management subsidiary. Together with other French employees of Paribas, he was therefore able to observe British and American patterns of organisation and behaviour. As managing director of AG Becker in 1983, he was in charge of selling the AG Becker Fund Evaluation Service, which dealt with performance measurement. This provided a good learning experience covering all aspects of Anglo-Saxon methods of

By manipulating the environment, French managers had the chance to learn and draw inspiration from the practices of their British or American colleagues. Some companies, like Paribas, CCF and Indosuez, decided at an early stage to adopt the Anglo-Saxon model, even though most of the industry still conformed to the French model. But the initiatives of French groups abroad were not the only way to get to know the Anglo-Saxon model. The opening of borders also enabled foreign players to put a foot in the country.

1.2. At home: Anglo-Saxon players and methods

The other encounter between the French and Anglo-Saxon models resulted from the arrival in France of foreign players. With the single European market and the liberalisation of capital movements, it became easier for foreign companies to come to France and offer their asset management services. It also became easier for foreign investors to come and invest in France. And interestingly, Anglo-Saxon companies also brought with them advisors and consultants, who were potentially in a position to exert coercive pressure on French patterns of behaviour.

1.2.1. The arrival of Anglo-Saxon competitors: a failure?

J.P. Morgan had a French asset management subsidiary as early as 1982, but most Anglo-Saxon competitors in the business arrived in France in the late 1980s or the early 1990s, thanks to the UCITS directive and the liberalisation of capital movements. It is questionable whether they ever managed to establish their leadership in the country.

In 1988 Invesco, one of the leading US investors, arrived in France; Fleming, the Scottish asset manager arrived in 1989; Baring Asset Management, the British investment bank, in 1990, and State Street Banque, the Boston asset managers, in 1991 (*Mieux Vivre Votre Argent*, January 29, 1996). However, even the leading world players had trouble penetrating the French market: the domination of the domestic banking and insurance groups, who had 90% of the market in 1990, prevented them from gaining large market shares. Fidelity, the world leader, had to retreat in the wake of the 1987 financial crisis and did not return until 1994. In 1988 J.P. Morgan sold its portfolio of institutional investments to CCF in 1998, an action which shocked many observers (*Les Echos*, June 24, 1998; *L'Agefi*, June 24, 1998). In consequence Anglo-Saxon competitors had barely 3.3% of the French market in September 1997, according to Lipper Analytical Services, and the foreign groups with the highest market share were actually German (Commerzbank with CCR Gestion) or Dutch (ABN-Ambro with Banque NSM). However, even though they failed to gain large market shares in France,[37] the Anglo-Saxon asset managers did have an impact in as far as their presence publicised the Anglo-Saxon model.

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[37] However, Lipper Analytical Services noticed that the domination of large French players was eroding, together with the decrease in the money market sector: while the top ten domestic players represented 74% in 1994, they represented 66% in 1997.

For instance, Mike Giles, president of Merrill Lynch International explains that success in the bank comes from a Chinese Wall between investment and fund management activities and from the rigour of the methods applied. Confirming the idea that American competitors in France sell the practices of their country, he underlines:

> We took the American model and introduced it abroad: our international offices are the exact copy of what we do in the United States. (*L'Agefi*, February 26, 1996)

One can see from the press that Anglo-Saxon players tried to advertise their model, and especially the scientific rigour of the investment process as opposed to the French so-called amateurism, and the good ethics linked to independence as opposed to French so-called dubious practices. Their presence thus increased the knowledge and visibility of the Anglo-Saxon model, and stimulated pressure to adopt Anglo-Saxon routines (*Option Finance,* July 17, 1995). But the role of foreign pension funds was also particularly important.

1.2.2. Anglo-Saxon clients become valuable to French asset management companies

Anglo-Saxon investors, especially US pension funds, became potentially very valuable customers for the French asset management industry from the late 1980s, when they started to invest internationally.

A study from the Conference Board showed that foreign securities as a proportion of the investments held by the 25 largest US pension funds rose from 4.8% in 1991 to 11.2% in 1996 (*Les Echos*, February 24, 1998). Data taken from the Bank of France's TOFA (a study of the flows and stocks of France's national accounting) show that after 1992 France became a net receiver of investment in equities and mutual funds. To capture the influence of foreign investment on the French asset management industry, we used as an indicator the balance between France and the rest of the world in certain financial assets. By calculating the difference between the flow of assets and the flow of liabilities, we can indicate when French flows for a given operation were superior to those of foreign economic agents. In the following graphs, a positive number shows when France was a net ~~exporter~~ seller of financial assets while a negative number shows when France was a net ~~importer~~ buyer of financial assets. A negative variation indicates the potential demand from foreigners for asset management services.

You seem to mix stocks & flows: are you comparing inflows & outflows calculating the net position? Or comparing assets & liabilities in specific years?

Figure 26: France's balance with the world in terms of equities

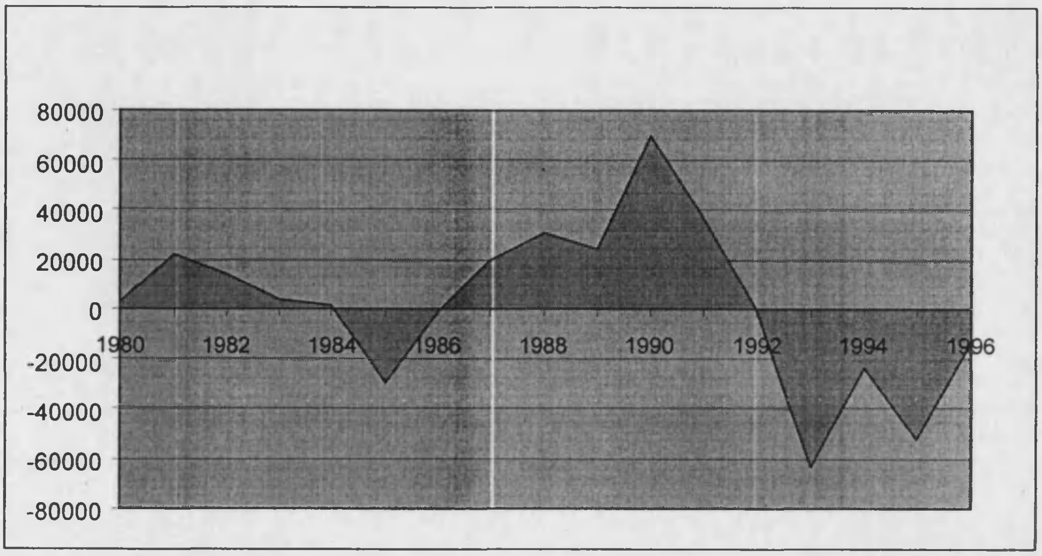
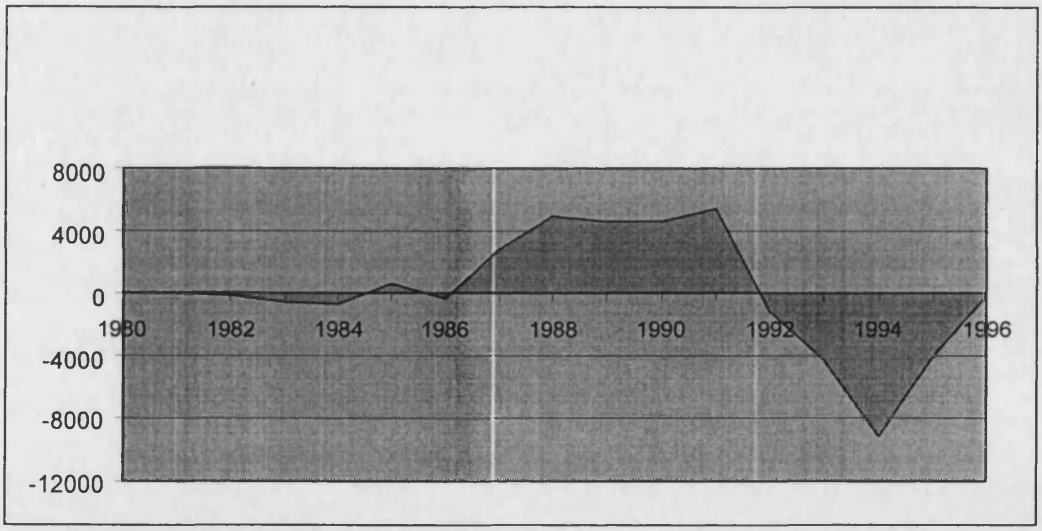


Figure 27: France's balance with the world in terms of UCITS



Source : Banque de France and author's calculations

The negative balance from 1992 for both mutual funds and equities indicates that foreign investors had become more valuable clients for asset managers, at least in terms of market potential. An examination of the financial press confirms this statistical evidence.

In chapter II we pointed out that foreign investors had increased their share of ownership in the French stock market, from 10% in 1985 to 35% in 1997 (Camus, 1998). More specifically, these investors were first and foremost Anglo-Saxon pension funds, who owned more than 20% of the shares in the CAC 40 (*L'Agefi*, March 19, 1998; *Investir*, July 6, 1998).

The following table shows the size of the portfolios of French assets owned by ten Anglo-Saxon funds in 1997.

Table 13: 1996 Portfolios of French assets (FF billions)

Franklin	21	T. Rowe Price Associates	4.5
Fidelity	20.7	College Retirement	3.4
Capital Research	13.5	Grantham	3.4
Calpers	7.5	Harbor	3
Janus	5.5	Batterrymarch	3

Source: Dealer's Book, (quoted in *Le Nouvel Economiste,* 1095,16/01/98: 40)

Admittedly, these Anglo-Saxon investors had portfolios that represented only about 2% of the total asset management market in 1996, and it is not certain that all these portfolios were mandated to an external asset manager. However, when Paribas obtained a mandate from Calpers in 1997, it was to manage their assets not only in France but also in Europe. With French portfolios representing a mere 1% of the total assets of the Anglo-Saxon pension funds, the issues at stake are clear:[38] they concern not just the French market but global opportunities.

1.2.3. Adaptation processes

We have shown that internationalisation resulted in a very direct confrontation between the practices of the French and the Anglo-Saxon players. Interestingly, the result was some adaptation processes: the learning of new routines, and for a small group of pioneers the early adoption of the Anglo-Saxon model.

When French firms ventured abroad and when Anglo-American players arrived in France, their patterns of organisation and behaviour were in competition with one another, and not only between individual firms, but also between the two models, the two different ways of organising the asset management business. To help them select good asset managers Anglo-Saxon pension funds brought to France their advisors, lawyers and consultants. As a result, French asset management companies and large French listed companies had from the early 1990s to adapt to the Anglo-Saxon model of client relationships (selection procedures,

[38] We should remember what we said in chapter II, that asset management companies' revenues are directly related to the amount of assets they manage. Also asset management fees are higher in the USA than in France.

standards and logic of contract), as Joseph Assémat-Tessandier, general director at Lazard Frères Gestion explains:

> To conquer foreign investors, we had to show them asset management structures that are as transparent in France as those of Anglo-Saxon firms. (*Option Finance*, February 12, 1996: 17)

Although consultants did not play a really influential role until after 1996, when invitations to tender spread across the industry, they had already set foot in France at the beginning of the 1990s. William Mercer and Watson Wyatt, for instance, had some resources in France together with their other consulting activities, while Frank Russell established an office at the end of 1994. These companies were able to make known Anglo-Saxon patterns of organisation and behaviour. Academics and professionals had been doing the same thing since the late 1980s.

In June 1991, Aftalion and Poncet, professors at the French business school ESSEC, wrote a paper about one element at the core of the Anglo-Saxon model, Performance measurement for UCITS, in the widely distributed Bank review (*La Revue Banque,* 517: 582-587). In December 1991, Veverka, a board member at Standard & Poor's, wrote about the rating of UCITS in the same review (*La Revue Banque*, 522: 1121-1122). In 1991, Antoine Briand who was to become the influential chief executive of the French investment advisor Finance Arbitrage, had finished his doctorate and was starting to work in the training centre of ARCO, the structure grouping the largest French supplementary pension funds. Moreover, the use of new software and computer programmes designed in the US was progressively introducing new *organisational routines* (*Analyse Financière*, 4th quarter 1989: 37-41). The confrontation with the Anglo-Saxon model therefore resulted in some adaptation processes among firms, and in particular the learning of new routines. But some firms went further than others.

A group of pioneers adopted the Anglo-Saxon model before the rest of the industry. We have already mentioned Paribas, which had an autonomous subsidiary implementing the Anglo-Saxon model as early as 1988. But CCF was soon to follow: in 1991-1992, after the acquisition of Framlington, it was de-merging its asset management activities and introducing investment processes. In 1992 both UAP, at the time the largest French insurer, and Indosuez, the French investment bank that had acquired Gartmore, created autonomous asset management subsidiaries. In 1992-1993, it was the turn of CDC, the largest French asset manager. And in 1994, shortly after the acquisition of Alliance Capital, AXA created AXA Asset managers, which became AXA Investment Managers in 1996. However until 1995-1996 these pioneers were the only examples to be found of companies introducing the Anglo-

Saxon model.[39] What is also interesting, however, is that in addition to encountering the Anglo-Saxon model, these pioneering firms realised that the French model of the mid-1980s was suffering from a problem of international legitimacy.

1.2.4. Conclusion: calling the French model into question?

We have shown that from 1984 the French asset management industry was increasingly aware of the Anglo-Saxon model and that learning processes had started to diffuse its practices and procedures. Moreover, faced with the international domination of the model, a group of pioneers, made up of the most international French players, had started to resemble Anglo-American companies. But this also made more French players conscious of the international leadership of the Anglo-Saxon model.

Anglo-Saxon firms are world leaders in the asset management business. In the light of this leadership, some asset management professionals realised that the French model was not internationally competitive.[40] This does not mean that they recognised any intrinsic superiority of the Anglo-Saxon model, but they did acknowledge its advantages, in a reflexive process (Giddens, 1984: xvi), as shown by *A.*, vice-president of a French asset management firm:

> For the Americans, we were barbarians, underdeveloped, people you should not give your capital to! We would mix our own pockets with ~~the one of~~ the clients; we did not live from asset management fees, but from stockbrokers' retrocession commissions; there was no transparency, no reporting. (..) When you would come, like all good Frenchmen, and offer to manage an American pension fund, you would have to answer questions such as 'but how are you organised? Where is your Chinese Wall? How come you give 50% of your brokerage to your house broker? In the US it is nil!' (...) In short, being internationally organised means being like the Americans. All global consultants are American. Even to have the mandate of a Japanese firm or for the discreet wealth of the Belgian King, you go through an American consultant. To manage in Bruneï, in Korea, it is always the same. There is domination. (...) If you don't enter the norm, you are not recommended for selection.

We will see later that this realisation by some French asset managers led to collective action which eventually produced great changes. Until 1996, the move towards the Anglo-Saxon

[39] We will show later how institutional interdependency can explain this result.

[40] Another story gave supplementary weight to this argument that the French model was not up to the international requirements: the failure of the CDC in New York, which after an attempt to establish itself in 1992 had to retreat in front of accusations that it was using the portfolios of its clients to serve the political interests of the French State, as it had done during the attempt by Indosuez to take over Générale de Banque.

model was deviant in the French market: even though the French model was under pressure, institutional interdependency prevented any dramatic transformation until 1996.

2. The French model under stress: problematisation and institutional interdependency

In the last chapter we uncovered a puzzle: that the French asset management industry adopted the Anglo-Saxon model only after 1996. In this paragraph, we will investigate this time-lag further: we will show that although the foundations of the French model of the mid-1980s came under strain, systemic interdependency prevented any radical change. Even in the 1980s and the early 1990s a number of factors were adversely affecting the asset management business, and the actors in the field clearly realised this (Weick, 1979, 1995). However, until 1996 and despite some cracks in the system, the institutional interdependency of the French asset management industry prevented any substantial transformation of the French model.

2.1. The French model under threat

In the previous chapter we insisted that the French model had an internal coherence. At the same time, we showed how the three layers of analysis in our theoretical framework responded to broader institutional and societal arrangements. However, a number of changes in the environment of French asset management companies can be noticed over the period 1984-1996, and these undermined this internal consistency. We will now show how actors made sense of these changes (Weick, 1979, 1995) and which types of solution were generally problematised (Miller, 1991) and advocated.[41] However, we will not at this stage link the solutions with any category of actors: it will be the purpose of the next chapter to explain how some debate took place between various coalitions. Our analysis will show that the problematisation of the challenges to French firms led to one clear solution: get rid of the French model and adopt the Anglo-Saxon patterns.

2.1.1. Entrepreneurial synthesis: vertical integration under threat

We have shown that in the French model the *entrepreneurial synthesis* was based on vertical integration: asset management departments were considered as mere technical support functions for the retail networks of universal banks or insurance companies. They mostly

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[41] Evidence was collected from interviewees, who were asked about the changes in their business environment, and from statistical data coming from the Bank of France.

targeted private investors through mutual funds, while institutional or wealthy investors were tackled within corporate or personal networks. However, new elements relating both to distribution and to internal banking or insurance structures, made the *entrepreneurial synthesis* problematic.

The first problem identified by the persons interviewed was the development of new distribution channels which undermined the quasi-monopoly of retail banking in the distribution of asset management products. From the late 1980s, the development of life insurance, and in particular of products based on multiple UCITS, made life insurers look for mutual funds providers external to their group. Consequently, they started distributing mutual funds from other firms. At the same time, new networks appeared, in particular independent financial advisors, as well as direct selling by post, and later by telephone. This provided an opportunity for foreigners, as *M.,* CEO of a German asset management firm, explains:

> Until 10 years ago [i.e. 1989], the market was totally controlled by the banks. (...) The arrival of foreign competitors in the market created a new offer, and the offer created a distribution network. Progressively, 800 to 1000 independent financial advisors emerged. (..) The other distribution channel was created with multi-assets insurance contracts: foreign investors would sell their funds as one of the UCITS in the contract. The creation of investment advisers and multi-assets insurance contracts started to shake the monopoly of asset managers that were captive of their networks.

The opening of new distribution channels represented a potential danger for banking networks: their clients, in the French model captive and therefore very profitable, might be tempted not to buy their mutual funds from their branch and might prefer other products offered through these new channels. Hence, retail networks became more sensitive to the performance of their in-house asset management, out of fear that they might ~~to~~ fail to please their customers or even lose them. Interviewees made sense of these dynamics by recognising potentially divergent interests between the retail network and the asset management department of the same company. The network, they told us, wanted to distribute whatever the client liked best, which might not be the in-house products. At the same time, the asset management department wanted to distribute its own products as much as possible, with or without the support of the retail network. Interviewees suggested an obvious solution to this potential conflict of interests: loosen the ties between the asset management department and the retail network, so that they did not depend exclusively on one another.

However, implementing this solution would have amounted to a dismantling of the integrated French model. It would have led to a new *entrepreneurial synthesis*, in which asset management targeted specific segments through different distribution channels, as in the

Anglo-Saxon model. Therefore we see here the first serious threat to the French model in the late 1980s and the early 1990s. A second problem was identified around the *entrepreneurial synthesis,* which relates to the focus on private investors.

The proportion of securities in France owned by private investors, who are referred to as households in the statistics, decreased consistently over the period 1984-1999, in favour of institutional and foreign investors. Evidence of this trend can be found in the yearly surveys by the Bank of France. Analysis of this survey shows that households, i.e. private investors, have lost their dominant position in terms of security ownership in France. The shift is remarkable, because it is observed in all categories of securities. The decrease in the percentage of households was matched by the increase of institutional investors, and of non-residents.[42]

The Bank of France yearly surveys

Over the 1984-1999 period, except in 1995, 1996 and 1997, the Bank of France conducted an annual survey of the custodians in the French market, in order to analyse the composition of the securities portfolios among investors. The data was provided by members of the AFB (French Banking Association), mutual banks, the Bank of France and other authorised custodians, such as exchange agents until 1988 and stockbrokers after 1988. It was based on the value of securities in portfolio, as measured in the last opening day of the year in the stock exchange. The Bank of France survey is based on the voluntary responses of banks and stockbrokers, and it is therefore only a partial representation of reality, especially because not exactly the same financial institutions replied to the survey every year. Nevertheless, the survey covered a large part of France's investment market. In 1984, 60.5% of Paris stock exchange equities were taken into account, against 45% in 1993 and 80% in 1998. It

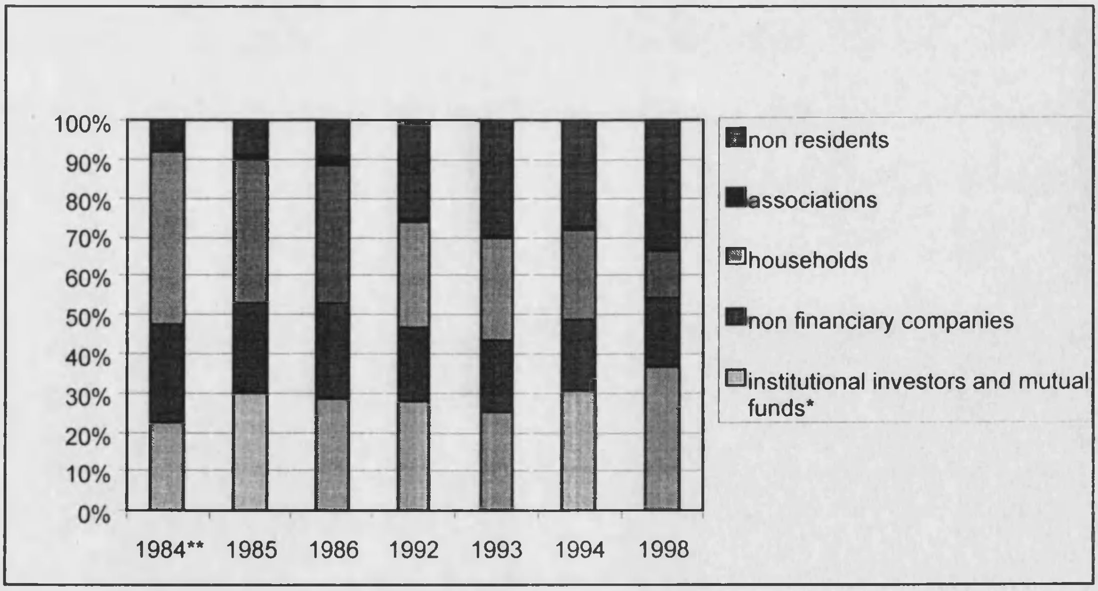
[42] Foreign investors buying securities in or from France.

Table 13: Financial portfolio ownership in France (1984-1998)

	1984**	1985	1986	1992	1993	1994	1998
Equities							
institutional investors and mutual funds*	22.6%	29.9%	28.8%	28.1%	24.9%	30.7%	36.9%
non financiary companies	24.7%	23.0%	23.7%	18.7%	18.7%	18.0%	17.5%
households	44.8%	36.7%	36.2%	27.0%	26.2%	22.9%	11.7%
associations	2.2%	1.7%	1.6%	0.9%	0.8%	0.6%	0.4%
non residents	5.7%	8.7%	9.7%	25.4%	29.4%	27.8%	33.4%
Bonds							
institutional investors and mutual funds*	47.0%	56.8%	60.5%	58.2%	59.9%	64.1%	75.4%
non financiary companies	5.5%	3.9%	4.9%	5.7%	5.4%	6.6%	3.6%
households	41.8%	34.5%	28.9%	24.2%	24.0%	16.8%	8.4%
associations	3.3%	1.4%	1.8%	1.3%	1.3%	1.0%	0.6%
non residents	2.4%	3.4%	3.9%	10.6%	9.4%	11.4%	11.9%
SICAV and FCP shares							
institutional investors and mutual funds*	13.7%	16.9%	17.5%	13.2%	14.7%	29.6%	45.9%
non financiary companies	22.4%	18.6%	18.5%	15.3%	17.2%	17.3%	16.8%
households	58.7%	60.2%	59.9%	66.9%	62.5%	48.3%	30.2%
associations	4.5%	4.1%	4.0%	4.1%	4.7%	3.8%	5.5%
non residents	0.7%	0.2%	0.1%	0.6%	0.9%	1.0%	1.6%
Foreign securities***							
institutional investors and mutual funds*	30.2%	38.2%	41.2%	45.6%	46.4%	60.3%	67.5%
non financiary companies	11.7%	9.5%	12.2%	14.4%	15.1%	12.3%	11.7%
households	50.7%	45.0%	40.0%	23.8%	20.4%	14.3%	5.2%
associations	2.5%	1.3%	2.6%	0.7%	0.6%	0.4%	0.3%
non residents	4.9%	6.1%	3.9%	15.5%	17.4%	12.6%	15.3%

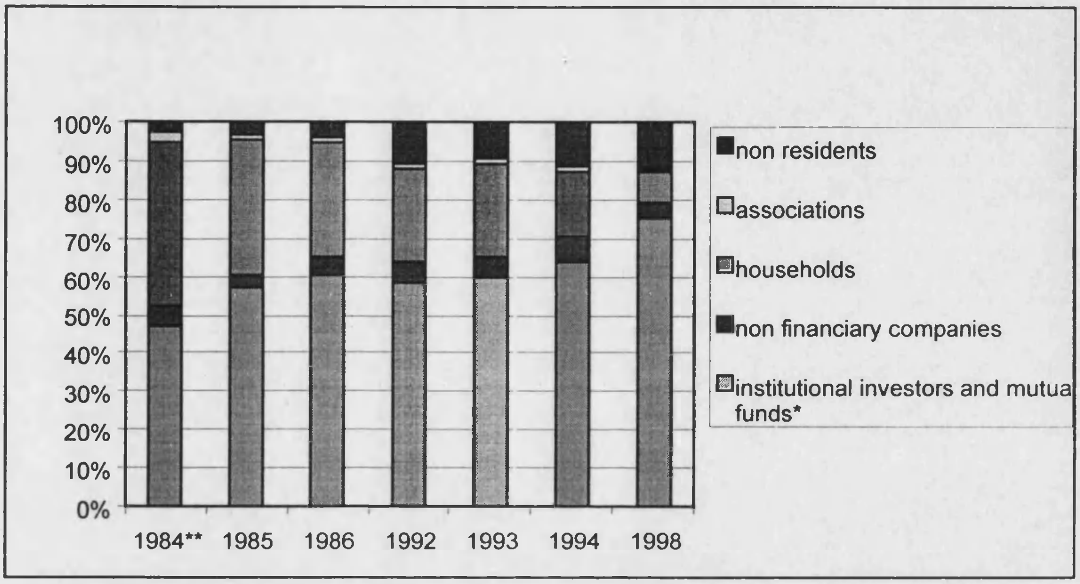
* insurance companies, pension funds, mutual funds and credit institutions
** in 1984, the figures corresponding to institutional investors and mutual funds do not include credit institutions
*** comprise foreign equities, foreign bonds and shares of foreign mutual funds

Figure 28: Ownership of French equities by category



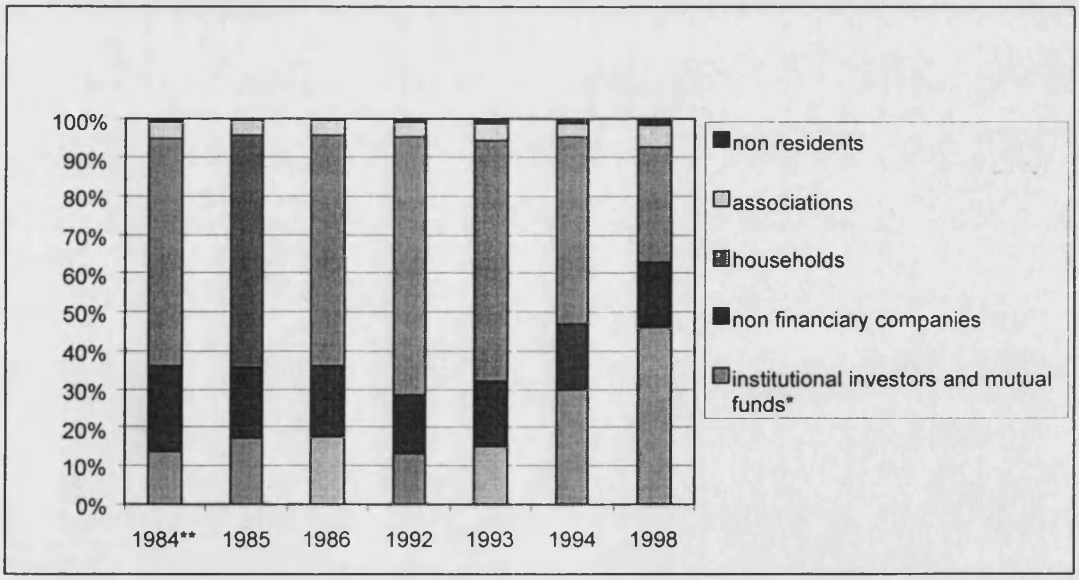
Source: Bank of France and author

Figure 29: Ownership of French bonds by category



Source: Bank of France and author

Figure 30: Ownership of French mutual funds by category

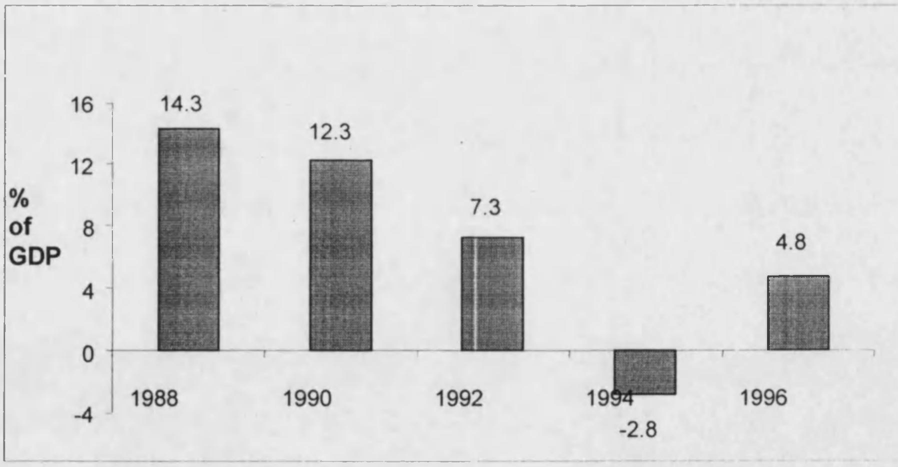


Source: Bank of France and author

In addition to the question of distribution, the second threat to the *entrepreneurial synthesis* of the French model came therefore from a shift in the demand for asset management services. The model focused on private investors and not on institutional and international investors, which had become the dominant segments. Even more, the project of introducing true pension funds in France to supplement and progressively replace the French contributory pension system would reinforce the importance of institutional investors. The creation of pension funds has been a constant subject of controversy in France in recent years (Deroy, 1994: 12). Eventually, the right-wing government of Juppé voted a law creating pension funds in February 1997, but its implementation was first stopped and then cancelled by the newly elected socialist government of Jospin in 1997. One interviewee commented that in general, and by pursuing various projects, asset managers had been preparing themselves since 1990 for the introduction of pension funds, in the hope of finally developing an industry capable of rivalling the Anglo-Saxons. To serve best the growing segments (institutional and foreign investors) actors in the field suggested creating new marketing and sales capacities to supplement integrated distribution channels. This would mean, however, abandoning the core of the French model, vertical integration, and adopting the Anglo-Saxon *entrepreneurial synthesis* of aligning different customer segments with different products and distribution. The third threat to the French model arose out of the differing dynamics inside banking and insurance structures.

French financial institutions have faced a crisis over the last 20 years (Plihon, 1998). Over the period considered, the profit margins of French banks show a steady fall:

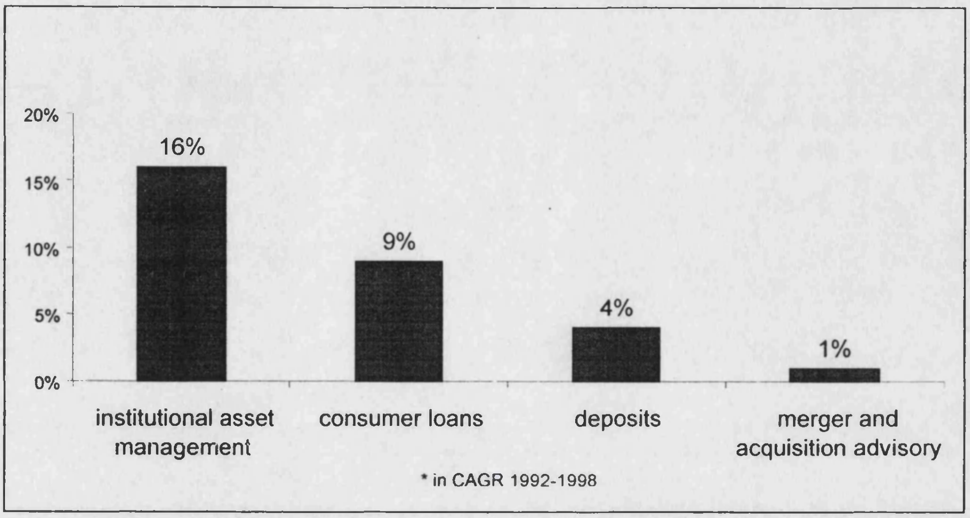
Figure 31: Net results of French banks (1988-1996)



Source: OECD

Since the mid-1980s, the number of credit institutions has decreased by 60%, mainly as a result of concentrations, and the number of employees in the sector has fallen by 26,000. Financial firms have faced problems of cost reduction and restructuring. However, for asset management the situation was very different: while the rest of the company had to tighten its belt, asset management activities were experiencing high growth, high margins and expansionary perspectives. The following table shows the growth rates of several types of financial services, and illustrates that asset management had more favourable dynamics:

Figure 32: Growth rates among financial services*



Source: Cerulli Associates and author

In these circumstances, the structures of the French model are problematic: they prevent any special treatment of the asset management business, because it is integrated with the rest of the company. Again, interviewees said that given this problem a good solution would have been to set up a separate company devoted to asset management. However, this would have meant de-merging this business from the rest of the company, in other words a direct challenge to the French model of vertical integration and universal banking.

At the level of the *entrepreneurial synthesis*, we have seen that the French model had been under stress since the late 1980s, as regards distribution, customer focus and internal dynamics. We have shown that the actors in the field problematised these changes and that de-merger and the establishment of a new *entrepreneurial synthesis* focusing also on institutional investors were perceived solutions to these strains. However, nothing really changed until 1996. We now show that at the level of both the *conception of control* and *organisational routines*, the French model was also faced with serious threats.

2.1.2. Conception of control and organisation routines: complexity and competition

Several other elements put pressure on the French model and were recognised by the actors in the field as requiring new organisation structures and new organisational routines: foreign competition, the increased difficulty of the asset management business and the increased level of clients' expectations.

In the French model, the role of gifted fund managers is critical to the success of asset management firms, because they supervise the totality of the value chain and are not controlled very specifically. This makes them the key resource for companies, and one that companies are highly dependent upon. In the French model this did not create problems, because of the national collective agreement, the career structure and vertical integration. There was little incentive for fund managers to change company, since they would make no more money elsewhere and would risk losing the rewards of seniority and experience. However the situation changed in the late 1980s, with the arrival of foreign competitors, especially Anglo-Saxons in the habit of using head-hunters and bonuses to hijack successful people. There was a risk that French firms would lose their most precious resources, the fund managers at the basis of their *conception of control.* A director in an asset management firm told us:

> Portfolio management companies want to recapture the value-added, which to a dangerous extent originated from employees. Pebereau [BNP chief] says that investment banking is bad business for shareholders: it is good business for clients and for employees who earn a lot of money, but not for shareholders. Asset Management was becoming a very good business for employees and quite a good business for shareholders. Hence the idea not to be at risk with employees, by losing them.

Actors problematised the risk with the French *conception of control*; they recognised that a good way to change the dependence would be by giving the company pre-eminence over the individual fund manager. But this would have amounted to abandoning the focus on fund managers which is at the core of the French model. Moreover, interviewees recognised that the changes in the financial markets had brought new complexity and new demands from their clients, which also put stress on French asset management.

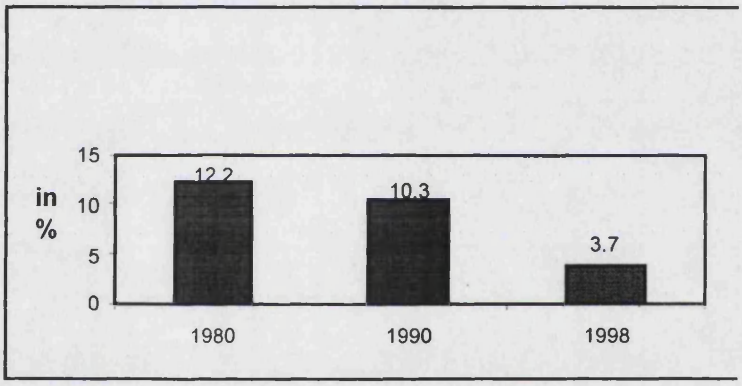
First of all, the job of the fund managers became more complex. As one asset manager recognised when reflecting on the changes surrounding financial markets:

> A phenomenon of sophistication and of geographical globalisation made it increasingly difficult to manage security portfolios just by being a prudent man.

With new technologies and the use of computers the technicality of the business increased. This was coupled with financial evolutions. By the end of the 1980s there had appeared on the French market new financial instruments which were more complex and sophisticated; they included futures, options and swaps. Such new financial techniques as hedging and asset-backed securities substantially increased the technical complexity of the business. But not only did it become more complex, it also became more difficult, because of the fall in interest rates: to beat the market and even to reach decent performance levels, one had to be more than just adequate. In the mid-1980s, interest rates were consistently high and investments focused on Treasury bonds or monetary products, which produced good returns precisely because of high interest rates, and the technicality and risks of which remained fairly limited. As a result, there were few issues at stake: it was not necessary to put a lot of effort into asset management in order to obtain decent returns. But once markets became deeper, more fluid and more complex, and once interest rates settled at relatively low levels, it was suddenly much more difficult to secure high returns. As the CEO of an asset management firm, subsidiary of an insurance group, explains:

> The fall in interest rates was a very important factor of change for the demand, be it institutional or private investors. They got more interested in the return of their assets, in liabilities constraints. This was also the case for private individuals: they became sensitive to the necessary development of their savings.

Figure 33: Evolution of French short term interest rates (1980-1998)



Source: Banque de France

Once again actors in the field saw the problem: for instance, Alain Bokobza, from Société Générale, set out a vision of risk and returns more similar to Anglo-Saxon practices (*Option Finance*, September 11, 1995: 16). The solution advocated by the people we interviewed was a need to be "professional", to appear convincing from a technical as well as a personal point of view, in order to secure clients' trust. Chief executives told us it was important to avoid the image of "romantic" fund managers who relied more on instinct than on rational methodologies. Hence the requirement to build on abstract knowledge, which is, according to Abbott (1988) the basis for any professional legitimacy.

A whole range of clients became more demanding at the beginning of the 1990s. At this time, French pension funds faced particular difficulties because of increased unemployment, which reduced their in-flows. A member of AGIRC (Association Générale des Institutions de Retraite des Cadres), which regroups pension funds for line managers, explained to us:

From 1992-1993, the amount of collected funds decreased, because of unemployment, and we had to pay more attention to the risks of default against our pensioners (and therefore carefully monitor and manage our liabilities) and to the returns of the portfolio.

From this point on French pension funds became more careful with their asset managers, and started to pay more attention to the possibilities of controlling their investment activities. But again, this meant attacking personal trust as the foundation of customer relationships. Some firms, recognising the increasing demands of institutional investors, decided to develop the capabilities to respond to their requirements. This was explained by *P.*, director in an asset management firm:

> In the medium term, I am convinced that the demands from institutional investors will require methods and techniques that will pay out. Those who do not choose this way will suffer.

In this quote, we see how the perceived problem with the *conception of control* and *organisational routines* is apprehended and problematised, and new arrangements are suggested, corresponding to the Anglo-Saxon logic of contract.

Recent quotes: change still ahead?

As regards the *conception of control* and *organisational routines*, the French model was often under threat in the period 1984-1999. Its foundations, and especially the focus on fund managers and the pre-eminence of personal relationships, came under attack. As in the case of the *entrepreneurial synthesis*, the actors in the field were not insensitive to such developments, and in a process of sense making (Weick, 1979, 1995) they recognised the threat and formulated or problematised (Miller, 1991) some solutions. Interestingly, the resulting suggestions amounted to a move away from the French model and towards the Anglo-Saxon patterns of organisation and behaviour: autonomy of the asset management business, professionalism, norms, rational methods and contract-based customer relationships. To a large extent, the adoption of the Anglo-Saxon model was the generic solution advocated by the actors to the changes in the environment of the French asset management industry. However, it took a long time for this solution to come about: while changes could be perceived from the late 1980s, it was only after 1996 that adaptive upgrading could take place. Before that, institutional interdependency prevented any radical move.

More generally, with interviews in 1999, risk of post-rationalization -> how do you address/assess this issue?

2.2. Institutional interdependency

We have seen that the foundations of the French model often came under stress in the period 1984-1996. We have also shown that sense making (Weick, 1979, 1995) and problematisation (Miller, 1991) among market players indicate that the challenges to the French model were identified, and that a move towards the Anglo-Saxon model had been suggested. However, despite pressures driven by the external environment, the French model continued to prevail until 1996, when asset management was constituted as a new (autonomous) organisational field. This evidence supports the various theories which insist that system interdependency and institutional incentives and constraints limit the possibilities for change (Hollingsworth and Boyer, 1998; Hollingsworth, Schmitter and Streeck, 1994; Kristensen and Whitley, 1995, 1997; North, 1990; Soskice, 1991; Whitley, 1999). After re-confirming the time lag in the transformation of the French asset management, we will identify some elements that held back the move towards the Anglo-Saxon model.

2.2.1. Some further evidence

Despite the various pressures for change, until the end of 1995 companies in the French asset management industry continued to operate in line with the dominant patterns of the French model. The people we interviewed all emphasised that the year 1996 was a turning point; and some evidence confirms that before that date most French asset management companies were using the French model.

In terms of structures, very few banks or insurance companies had de-merged their asset management business to create autonomous subsidiaries. As *Option Finance* pointed out in its review of the asset management business in February 1996: "the retail banks have their asset management still entirely organised internally" (17). With the exception of a few players, those banks or insurers that had ventured abroad, the major retail banks, Société Générale, BNP and Crédit Lyonnais, and the totality of the medium-sized banks operated vertically integrated asset management departments. For instance, Bernard Simon-Barboux, vice-president at Indosuez bank, explained that his firm was an autonomous subsidiary but declared:

> Question: Did other banks de-merge their asset management business too?
>
> B S-B: It is the case of Crédit Agricole, through Segespar or Paribas, through PAM, but we are not numerous. (*Banque et Stratégie*, January 1996: 3)

Moreover, a study by the American consultant Frank Russell at the end of 1995 showed that asset management was heavily concentrated and that institutional clients were largely captive.

Both of these are typical features of the French model (*L'Agefi*, July 11, 1996). In terms of *entrepreneurial synthesis*, therefore, the French model was still alive and kicking at the end of 1995. In terms of *conception of control* and *organisational routines*, the same situation is revealed by tracing the dates at which investment processes were designed and implemented in major French players. Paribas introduced one at the end of the 1980s and CCF in the early 1990s, but AXA, despite having an autonomous subsidiary in 1994, only formalised its investment process in 1997, when it merged with UAP. Indosuez AM and Segespar, subsidiaries of Crédit Agricole, set up their investment process in mid-1995. Société Générale developed one just before creating its asset management subsidiary in December 1996. BNP worked on its investment process in 1995-1996, in collaboration with Frank Russell, and then implemented it in 1997, along with the de-merger of its asset management activities. CDC finalised its investment process in 1997 with the arrival of a new CEO, Daniel Roy from Paribas. In 1998, Crédit Lyonnais had still not made its investment process explicit. The same trends could be observed in smaller players, which in general developed investment processes only after 1996.

In 1995, Fimagest, a small bank managing FF 47 billions, stated that its fund managers were still independent decision-makers regarding investments (*L'Agefi*, August 2, 1995), one typical feature of the French model. The case of Compagnie Financiere Edmond de Rothschild offers another illustration: in June 1996, Samuel Pinto, its chief investment officer, explained that asset management was organised as a department within the bank (*L'Agefi*, June 6, 1996). In February 1997, he explained that it operated as an autonomous subsidiary, Rothschild Asset Management (*Le Figaro Patrimoine*, February 28, 1997). More examples could be found illustrating that until 1996 the French model was still dominant. The various pressures identified earlier, which should have pushed firms towards the Anglo-Saxon model, seem to have had no impact. Institutionalist theories provide some explanation of this situation.

2.2.2. Interdependency and resistance to change

A series of institutional factors explain why the French model remained in operation in the asset management industry until 1996. If we look at the three institutional dimensions suggested by Scott (1995: 34), we find indeed regulatory, cognitive and normative constraints sustaining the French model or impeding the introduction of Anglo-Saxon practices.

Until 1996, the institutional regulatory framework prevented the recognition of asset management as an autonomous business. Here we find an illustration of Douglass North's argument that rule systems and enforcement mechanisms, as inscribed in institutional circular?

arrangements, affect actors' calculations of benefits and costs (1990: 81). First, the legal framework did not recognise the asset management business as distinct from other services. There was no such thing as a single regulator: even though the COB (Stock Exchange Commission) supervised UCITS, banking authorities shared the supervisory role because they controlled credit institutions involved in portfolio management activities. Consequently, regulatory arrangements supported an *entrepreneurial synthesis* in which banks distributed mutual funds; in short, the French model. Asset management had neither a unified professional body nor its own national collective agreement in labour law. Any attempt to develop autonomous resources dedicated to asset management would have been extremely costly: it would have implied developing new institutions and fighting against existing ones. It is not then surprising that market players did not feel strong incentives to change. Moreover, as we demonstrated in our analysis of the French model, the lack of pension funds supported a situation in which large credit institutions were able to distribute asset management services to captive private clients and enjoy large market shares and high margins. It was in their interest to maintain such a favourable situation. As shown from this brief cost-benefit analysis, there were good reasons for market actors not to change their ways. Regulatory institutions in line with the French model of the mid-1980s reinforced its systemic interdependency and prevented the Anglo-Saxon model gaining ground.

In terms of cognitive institutions, one should remember that in France in early 1990s universal banking was seen as the best way to organise financial services. At the time, as can be seen for instance from reports from the Commissariat Général du Plan (1992: 158), the German banking model was considered the way forward. Crédit Lyonnais was involved in a period of frenetic expansion, and together with all major French banks applied the concept of the 'banque-industrie': banks would take direct participation in a variety of companies, in order to sustain strategic partnerships and secure high long-term returns. It was taken for granted that financial institutions in France should follow the universal banking model, even if was not necessarily the most efficient given the new competitive conditions (Meyer and Zucker, 1989: 47). It did not matter if they continually made losses, as did GAN or CIC. What mattered was that they applied the legitimate best way to organise. In other words, within this institutionalised rationality about the best way to organise there was little support for any model of asset management based on a strict separation of activities, such as the Anglo-Saxon model.

Finally, there were also some normative institutional elements which prevented the introduction of the Anglo-Saxon model before 1996. French financial institutions were indeed faced with some problems of consistency in the way they treated their asset management departments. We have seen that market dynamics were very different in this business from those in other financial services. In the institutional framework we have described, asset management was conceived as an integral part of banking or insurance. But in the integrated French model there was a clear problem: how can you recruit people for one department of the firm when all the others are making people redundant? How can you invest in new computers for the asset management department when you are limiting the budgets of other entities? As *T.*, CEO of an asset management subsidiary of a bank explains:

> It is not possible to have one department with high growth, with possibilities of recruitment and investment and to say no to other departments.

Normative pressures prevented a differentiated treatment of asset management activities: it would not have been appropriate to destroy egalitarian rules within French banks or insurance companies, especially in firms that had a close relationship with the state. Normative expectations were that all employees should receive the same treatment, because they were in the same company. Here we find the argument, developed by March and Olson (1989) and Parsons (1937), that roles, attitudes and behaviours are driven by implicit institutional rules: in this case, norms did not permit asset management to be treated differently. This too prevented the introduction of Anglo-Saxon practices, which would have required substantial investment and recruitment.

In summary, we have shown that until 1996 a series of institutional conditions prevented the introduction of the Anglo-Saxon model. Regulatory, cognitive and normative elements were strong obstacles to the adoption of the new practices, despite the perception among actors, even in the late 1980s, that change was needed. In the last chapter, we showed that the French business system could accommodate a sub-system, an island functioning in radically different ways from the dominant patterns of the system. Far from contradicting institutionalist theories, the French case seems to verify the perspective that institutions have an impact on economic action. Until 1996, national institutions constrained firms' patterns of organisation and behaviour in a way that prevented them from introducing any radical change. But in the French asset management industry after 1996 these obstacles could be removed by setting up a new organisational field. We will explain how in the following chapter.

CHAPTER VII: THE CONSTITUTION OF A NEW ORGANISATIONAL FIELD: 1995-1997, AGENCY AND STRUCTURATION

At this stage of the analysis, we have drawn two important conclusions about adaptation processes. First, from the late 1980s onward the French model was under threat, through the confrontation with the Anglo-Saxon model, and because of changes in the business environment that undermined its internal consistency. We have identified how actors in the field made sense of these challenges and how their solutions pointed in one direction: the adoption of the Anglo-Saxon patterns. Secondly, we have shown different sorts of dynamics: while a few companies adopted the Anglo-Saxon model early on, the bulk of the French asset management industry continued to operate on the French model. This tension within the field corresponds to different adaptation processes. While most companies experienced learning processes and adopted new routines from new software, from financial training and from competitors, only a few companies, mostly those who had made international acquisitions, changed their *entrepreneurial synthesis* and their *conception of control.* And they changed by adopting the Anglo-Saxon model. In the following pages, we will reconcile our previous conclusions, and explain how the setting up of asset management as a new organisational field made it possible to adopt practices considered deviant in the French business system. Before, systemic interdependency had prevented any radical move; afterwards, it was possible to establish new rules and new practices. What is all the more interesting, however, is the path that enabled the constitution of asset management as a new organisational field; and we will outline how collective action and debate, at both cognitive and political levels, made it possible.

We will show how one coalition, made up of the French asset management business elite, organised collective action, and how their institutional entrepreneurship (Selznick, 1959) found support in the French State and could be catalysed through particular legitimisation vehicles (a professional report and a new law). We will show that once asset management was constituted as a new and autonomous business, certain institutional agents and calculation tools were successful in establishing the field and sustaining it, and how this resulted in institutional and competitive isomorphisms (DiMaggio and Powell, 1983). We will insist that political pressures were critical in both the structuration of the field and the resulting isomorphisms. In conclusion, we will account for the differentiation observed in the French asset management industry, by recognising how the French sub-system adopting Anglo-Saxon patterns of organisation and behaviour is actually integrated within trans-national networks.

1. Setting the scene: conflicting viewpoints and coalitions

The first step in our understanding of the processes that enabled asset management to emerge as a new business is to understand clearly who brought about the transformation. Adopting a reflexive and interpretative approach (Giddens, 1976: 163), we will outline how particular coalitions supported particular opinions about the organisation of asset management, and in particular the view that the Anglo-Saxon model was better. This will allow us to refer back to our theoretical framework, and to the articulation between political and cognitive dimensions in the process of adaptation.

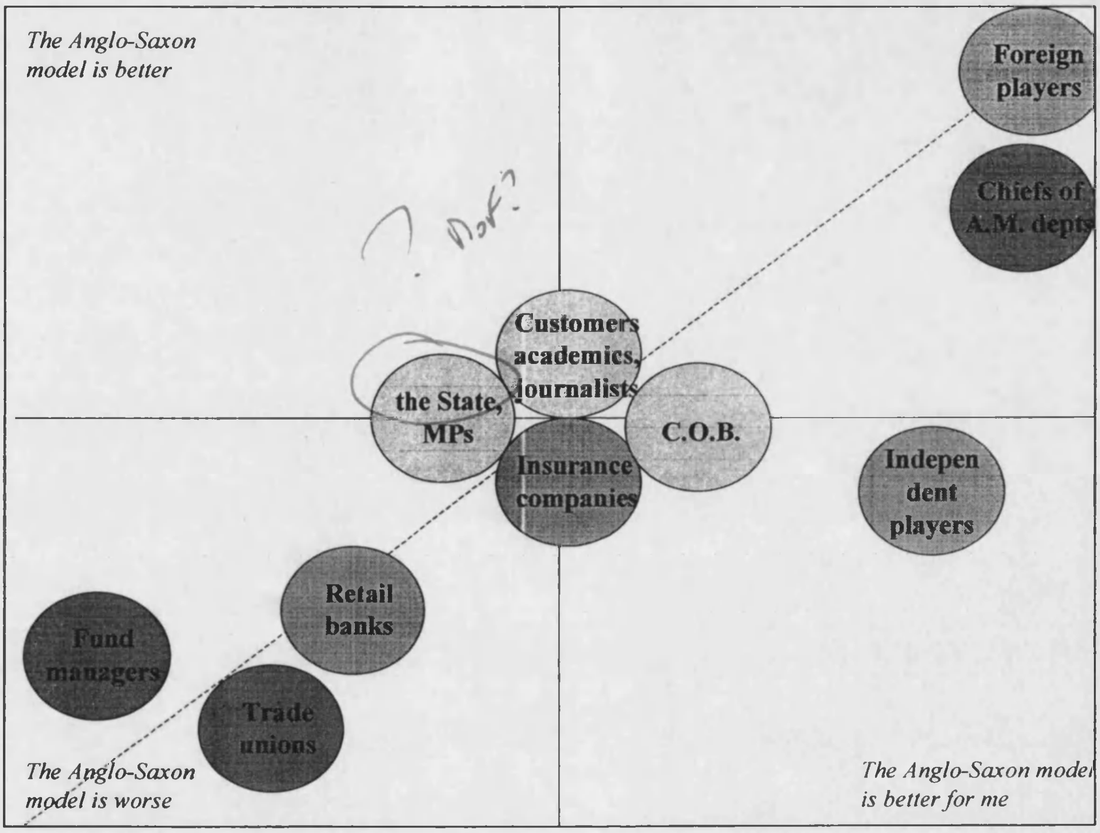
Our investigation enables us to identify a number of coalitions, representing groups of individuals, organisation or institutions, which employed similar discourses and had similar positions in the field. In the following pages, we analyse their perspectives and opinions in respect of one key question: should French companies change their practices and adopt the Anglo-Saxon model? This single question summarises in many ways the nature of the debate that occurred in France around 1996. It follows from our earlier conclusion that sense-making and problematisation led to the proposition that the French model had to be altered to take on board the Anglo-Saxon patterns of organisation and behaviour. For that reason, to analyse the politics of consensus formation (Power, 1992), we focused on this single question and positioned the various coalitions in regard to their opinions along two axes:

- a 'cognitive axis' where a positive position means "the Anglo-Saxon model is better than the French one". This axis represents the opinions of the actors in the field about the intrinsic advantages of the Anglo-Saxon model, in terms of financial performance, costs, quality of service to customers and ethics;
- a 'political axis' where a positive position means "the Anglo-Saxon model is better **for me**". This axis represents our interpretation of the potential gains or losses for the actors in the field in relation to their situation in the French model, in terms of power and financial reward.

right view? What about 'competitive' 'strategic' or 'personal'

In the theoretical framework, we identified these two dimensions as supporting adaptation processes; now our objective is to see how the processes were related to particular arguments. The combination of the cognitive and political axes is interesting, in the sense that it allows us to relate the "interests" of the actors and their opinions in the debate about the Anglo-Saxon model. A possible mapping of the debate in 1994-1995 would be as follows:

Figure 34: Positioning of the main coalitions in the debate



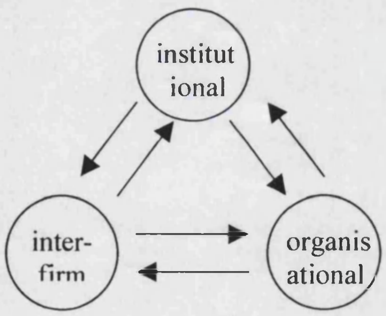
After presenting the coalitions, we will try to explain their positions in the diagram, which will then be the basis for the analysis of their confrontation.

1.1. Various coalitions

As we have explained, the French asset management business had been subject to various pressures since 1984, but until 1996 the majority of firms continued to operate using the patterns of the French model. To understand the underlying dynamics of the field, it is important to identify clearly the coalitions that tried to influence the debate, and that favoured or opposed the new patterns of organisation and behaviour imported from the Anglo-Saxon model.[43]

First of all, it is necessary to recognise that the debate was structured along multiple levels and between different categories of actors. The first level was the organisational one: coalitions of individuals within organisations. Here we can identify three coalitions, which are depicted with the same colour in the diagram: fund managers, the chiefs of asset management units, and the trade unions, which represented the employees. The second level was the inter-firm one. Here we find the firms competing in the asset management business: retail banks, insurance companies, independent players, and foreign players. Within foreign players we include the various consulting firms that are a component of the Anglo-Saxon model: investment advisors, management consultants and rating agencies. Again, these players are pictured with the same colour. The third level was the institutional one, with the state, the COB, and public opinion as represented by customers, academics and journalists. Here we have implicitly fused professional associations with firms, because we assume they would represent the views of their members. In our representation, three categories of players, i.e. the three levels, are in constant interaction and confrontation. Here again we find that organisational adaptation is a dynamic process which operates at multiple levels, because of its embeddedness in social and institutional spheres. ? ?

Here coalitions = category of actors. Is it the same necessarily? (?) How were they identified in the 1st place?



Altogether, we have identified ten coalitions, which took part in the debate in the French asset management industry about adaptation through the adoption of the Anglo-Saxon model.[44] We can now present the key opinions and positions of these coalitions on our two axes.

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[43] Here we follow the example of Power (1992) in his analysis of brand accounting, and Bourdieu (1992: 192-233) in his analysis of the literary field in 1880s France.

[44] Some others could possibly have been added, but we argue that we have here the most relevant players, those that actually had some influence on the debate. Moreover, these coalitions display some clear opinions towards the Anglo-Saxon model, as can be explained subsequently.

What would constitute a 'coalition' here? Go to Sabatier?

(?) eg COB? eg 'pub. opinion')

1.2. Those in favour of the Anglo-Saxon model

We found two prominent coalitions, foreign players and chiefs of asset management departments, who supported an upgrading of the French management industry in order to put it at the level of the Anglo-American model. We also found a third coalition, independent players, who had an opportunistic attitude. The motivations of these three coalitions were very different.

The foreign players consistently advocated the Anglo-Saxon model. American and British asset managers represented the world leaders and it seems natural that they should believe in their own superiority. They argued that their model was simply better than the practices of French players, because it involved clarity, good ethics, quasi-scientific procedures etc. They had therefore a strong cognitive argument in favour of their model. Moreover, we can assume that they had a strong political interest in seeing the model expand into France. We have described how difficult it was to penetrate the French market, precisely because of its vertical integration within bank or insurance retail networks. Introducing the Anglo-Saxon patterns of organisation and behaviour in France would break up vertically integrated structures and distribution arrangements, and open new possibilities for the Anglo-Saxons to sell their services. At the same time, arguing for their model was also a strong marketing argument against French competitors. Criticising the French model was not only a way to promote their own virtues, but also a way to attack the institutional barriers to their growth.

For independent players the situation was slightly different. First of all, some interviewees in this category believed that the Anglo-Saxon model was not necessarily superior. In particular, they insisted that investment processes do not bring better results. For instance, *B.* claimed that the old-fashioned methods brought in the end "performances that are just as good as the firms using [investment] processes", while *M.* insisted that "big firms are anonymous monsters", and *L.* recognised that clients appreciated direct contact with their fund managers. Many of these arguments are actually in favour of the French model. However, some players used the Anglo-Saxon label to make their status as independent companies more valuable. For instance, Carmignac Gestion presented itself as "independent, à l'Anglo-Saxon!". We can therefore interpret support for the Anglo-Saxon model as a matter of professional recognition, on our political axis. If independence became the norm, French independent players would gain in terms of visibility, recognition and professional power. They would no longer be the odd players in a business to which no-one paid attention, in a sector dominated by retail banks and insurers; they would become the core actors of a new business, asset management conducted on the Anglo-Saxon model. This is why we positioned this coalition in favour of the model, but for opportunistic reasons.

The third coalition in favour of the Anglo-Saxon model was made up of the heads of asset management departments in the large banking and insurance structures. This category probably understood best the market and its evolution, because they were at its core, with large market shares, resources and professional exposure. They could listen to the problematisation of the changes in their environment and to the solutions that were advocated. The consensus emerging among them was that a new business model was required to enable them to compete successfully (Kleiner, 1999: 57). To a large extent, their arguments echoed those we analysed earlier about the sense-making and problematisation of the changes in the business environment. Given the increased sophistication and complexity of the financial markets, as well as increased competition and an expected growth and refinement of demand, they became convinced that asset management needed specific resources and some strategic autonomy to enable it to develop distribution and marketing areas. In other words, it needed a new *entrepreneurial synthesis*, in which asset management would be an autonomous business. This manager in an asset management firm summarises:

> This could not go on. There was competition from the Anglo-Saxon world, from brokers. In terms of Human Resources, there was a problem of pay. By creating independent subsidiaries, it is possible to give bonuses, to have salary flexibility, to get out of collective agreements.

Increased competition and new market conditions required a new *conception of control*, in which firms recapture the value-added from the fund managers, and target institutional investors through investment processes and dedicated marketing. All these elements pointed in one direction: towards the Anglo-Saxon model. And they were all the more convinced that they had to upgrade their practices because future European integration would bring about a market similar to the Anglo-Saxon ones, as this representative of AFG-Asffi declares: "The European financial market will become like the American one". The coalition of asset management chiefs therefore supported the adoption of the Anglo-Saxon model, from a cognitive point of view. But they also supported it from a political point of view.

Again, not much on this here

There are obvious reasons to account for why the heads of asset management departments favoured the adoption of the Anglo-Saxon model. In the French model, they were in charge of one not very large department within a large financial institution, either bank or insurance. They were considered as support functions, and their business had no professional recognition. As one of them told us, "To say that asset management required Chinese Walls used to make people laugh!", or as another underlined: "the starting point was a total lack of recognition for the asset management business". Within financial groups, their status and their prestige was limited, despite the fact that their business was second in the world in terms of assets managed in mutual funds, and despite growth ratios much higher than those in other financial services. By establishing the Anglo-Saxon model, they would become CEOs of dynamic companies in a growing business; they would have their own resources and their own strategic plans, and they would be recognised as a genuine profession. It is understandable, therefore, that they would favour the adoption of the Anglo-Saxon model. Moreover, in the French model the *conception of control* made fund managers a dominant coalition. By introducing investment processes, in the Anglo-Saxon fashion, the heads of asset management departments would be able to exercise better control of the fund managers, by utilising the advantages of division of labour, as explained by Braverman (1974), Abercrombrie and Urry (1983) and Touraine (1955). In summary, there was a strong case in favour of the Anglo-Saxon model within the coalition of asset management chiefs. But even here some other voices could be heard. | Coalition theo?

1.3. The coalitions opposing the adoption of the Anglo-Saxon model

In the field, we found three clearly identified coalitions that opposed the adoption of the Anglo-Saxon model: fund managers, trade unions and retail banks. Again, both cognitive and political motives can be noticed.

When talking to French fund managers, one detects some scepticism about the Anglo-Saxon model. In particular, fund managers criticise the introduction of investment processes as marketing gimmicks, as a way for the new heads of departments, many of whom were not genuine financial analysts, to take control over investment decision-making. This is what this director of a leading French investment consultant, himself former fund manager and SFAF-financial analyst, expresses:

> When one looks at performances and processes, one notices that the "modern" process is in fact a loss of efficiency. Paradoxically, the financial houses that have the best performances are those with the most archaic processes, those that did not modernise, those that manage in a traditional fashion.

The same idea could be heard from other fund managers, that the Anglo-Saxon model was no better than the French one, in terms of performance. And also in terms of customer relationships: some insisted that in times of market decline, clients would very much prefer to be able to talk directly to the fund manager, not to a sales person. In other words, from a cognitive point of view, fund managers did not recognise any superiority of the Anglo-Saxon model. And from a political point of view, we would also expect them to oppose it strongly. After all, having an investment process, in the American or British fashion, means putting an end to fund managers' autonomy. It means taking away from them the supervision of the value-chain, the power of decision-making, the glory of beating markets and colleagues. It means taking away from them the glamour of gambling on the financial market and it means transforming their work into a dull occupation of following bureaucratic rules.[45] Moreover, adopting the Anglo-Saxon model would jeopardise the financial rewards of fund managers, because they would risk being replaced more easily. For all these reasons it is not surprising that they would oppose the departure from the French model. But they were not the only coalition opposed to the move.

Trade unions representing asset management employees were also opposed to the Anglo-Saxon model. First, having an autonomous business would mean that people working in this area would lose the privileges and protections of the national collective agreements in insurance and banking. We have already underlined that these agreements were advantageous for the workforce. The Anglo-Saxon model would put an end to the life-long banking career for those working in asset management. But it would also mean advocating another type of career-track, one which involved external mobility and, as some said, even greed. One human resource consultant told us he did not want to work with asset management professionals any more, because pay and money had become the only relevant variables, unlike in the old French model where job satisfaction was also important. Someone told us that in 2000, Force Ouvrière, a leading trade union, had distributed a leaflet saying "Investment professionals, we don't have the same corporate values!" to express the view that the new (Anglo-Saxon) model emphasised individualistic and money-oriented attitudes and was undermining corporate loyalty and solidarity. From a cognitive point of view, therefore, trade unions were opposed to the introduction of a new model of human resource management that would destroy the commitment of employees to their company. But it is also easy to understand why they would oppose it from a political point of view. Creating autonomous subsidiaries that would remain outside the national collective agreement was a direct threat to the role of trade unions. It would eliminate their right to supervise redundancies, to protect employees against unfair practices and to have a stake in many personnel management areas. It would also make it possible for banks or insurers to create not just asset management subsidiaries, but any other kind of subsidiaries, and thus to destroy the actual relevance of collective agreements. And of

[45] Several interviewees confirmed that nowadays being a fund manager is not as exciting as it used to be.

course trade unions were not ready to accept that, as we will show later. The final coalition opposing departure from the French model was that of retail banks.

The cognitive motive for banks to oppose the introduction of the Anglo-Saxon model has already been mentioned. It relates to their conviction that universal banking was a superior way to organise the business; universal banking meant that asset management was integrated within banking structures, and not autonomous. But we would also expect them to oppose it strongly from a political point of view. Asset management was a very profitable activity in the French model: clients were captive and thus had to pay rather high fees, and because of a lack of transparency they had no effective control of how much the bank actually charged. With a quasi-lack of distinction between their own portfolios and those of their clients, banks had on hand colossal amounts of money that they could almost play with (Story and Walter, 1997: 286). France's *sui generis* version of the German universal banking model meant that the *grand corps* heading retail banks had become an oligarchy, holding the levers of economic policy and of corporate governance in the boardrooms of major corporations (Story and Walter, 1997: 218). In the end the separation of asset management in the Anglo-Saxon fashion would demean the universal banking model: it would imply introducing new corporate governance structures and in particular external scrutiny. The relationships between the retail bank and its asset management subsidiary would now be controlled, and unethical practices would be identified; customers would start comparing the performances of asset managers and would no longer obediently buy the mutual funds of their retail bank. Accepting the superiority of the Anglo-Saxon model meant acknowledging flaws in their ways of doing business, and shooting themselves in the foot by breaking up the stronghold of their economic power. We can therefore understand why retail banks opposed the departure from the French model. A third group of coalitions can however be identified, which had less fixed opinions on the issue.

1.4. Those fairly neutral but ready to be convinced

In the debate about changing the French asset management model, there were other coalitions which before 1995-1996 did not seem to have strong views about the issue: the COB, insurance companies and two broad categories we call the State and public opinion.

The COB, France's Stock Exchange Commission, shared the supervision of the asset management business with the banking authorities until 1996. But, while it did not control asset management firms exclusively, its role was critical in terms of licensing of UCITS.

Since 1988 and the Brac de la Perrière report, there had been some ethical rules about the management of UCITS, and in particular independence. The COB was therefore receptive to the Anglo-Saxon model, because this model made it easier to control the relationships between the promoters and managers of UCITS. But apart from that, the COB did not have strong views about the Anglo-Saxon model. In particular, the scandals involving Maxwell, BCCI, Barings, and Morgan Grenfell, which occurred in Britain in the early 1990s, were not strong incentives to implement the model in France. Moreover, with its responsibilities in the stock market already large, it is doubtful that the COB was willing to take up new workload. As a result, it is difficult to identify any clear COB position on the departure from the French model. The same is true of insurance companies.

Insurance companies collect large amounts of money through their life insurance and casualty activities. This gives them a natural stake in the asset management business. Admittedly, the Anglo-Saxon model may have offered them some advantages: with autonomous subsidiaries, they would be able to hire people with a stronger financial background. They would also be able to increase their market share at the expense of retail banks. However, the structure of their balance sheet meant that until 1994-1995 they had a relatively neutral attitude: after all, most of their portfolios contained their own assets and not those of external clients. Insurance companies mostly invest on their own account and do not to any great extent manage assets for third parties. The present leadership of asset management companies such as AXA IM or AGF AM arises mainly from their management of the assets of their parent insurers,[46] not from the management of many external mandates. It is therefore understandable that the insurance companies had no strong opinion about the adoption of the Anglo-Saxon model; to a large extent they regarded themselves as operating in another organisational field.

Finally, we must consider two broad coalitions in the debate: the State and public opinion, as represented by customers, academics, and journalists. We admit that these groups were rather amorphous and not very active in the debate. But they represent its institutional level, and however vague they may be they can be interpreted and analysed through the comments of the people involved in the field. Before 1995-1996, it appears ~~that these two~~ coalitions had rather vague opinions about the asset management business. The French State supported the universal banking model. However, from 1993 there was ~~some evolution~~ in its position, as the Crédit Lyonnais fiasco was gradually revealed. In November 1993, Jean-Yves Haberer, the bank's CEO, was sacked. In July 1994, the debates about the transposition into French law ?

[46] Around 80% of the assets managed by AXA IM came directly or indirectly from AXA Group in 1998.

of the European investment services directive started, with the publication of a law proposal in the Senate. The financial commission of the Senate, under the presidency of Philippe Marini, a former financier, had drafted a text that went in the direction of the Anglo-Saxon model, making a clear distinction between investment and credit activities. But in its first reading the French government did not take this vision on board and continued to support the universal banking model (Marini, 1996: 18). It appears that until 1996 the French parliament did not have strong views about the Anglo-Saxon model and was neutral about the necessity to depart from the French model. The same was true of public opinion.

There were some articles emphasising the positive aspects of Anglo-Saxon practices (for instance: *Option Finance,*388, January 1996) and others claiming that the reputation of the Anglo-Saxons was largely overrated (for instance: *La Vie Française*, December 13, 1997). More generally, the professional magazine *Banque* did not carry many articles about asset management, which may indicate that public opinion was fairly neutral about the whole debate. French pension funds too expressed mixed views about the Anglo-Saxon model, some recognising that it offered more transparency (see for instance the example of ARCCO, in *Option Finance*, June 29, 1998), others being unconvinced of its merits (see for instance the SBF-Sofres survey in *L'Agefi*, July 9, 1996). In general the insurance companies, the COB, the State and public opinions appeared relatively neutral about any departure from the French model. Collective agency, however, would change this situation.

2. Historical opportunities: collective agency, MAF law, La Martinière report

We showed in chapter V that by 1999 the French asset management industry had become very similar to the Anglo-Saxon model. We also showed that the transformation took place only after 1996 and that until then a majority of firms continued to employ the French model. The thesis we develop is that this was possible through the setting up of a new organisational field, in which new practices imported from the Anglo-Saxon model and largely deviant to the rest of the French business system could be implemented. In this section, we explain how this happened and how asset management emerged as a new business in 1996. Interestingly, the path followed a very French trajectory, in which elites and the state played a critical role. After showing how some individuals in the French asset management business started to organise some collective agency[47] in 1994-1995, we will show how they seized the historical opportunity of the transposition of a European directive and of the creation of a professional working group to impose their views on the debate.

2.1. The 'Club des Gérants' ('Asset Managers Club')

We have seen that the heads of asset management departments were among those supporting the adoption of the Anglo-Saxon model in French asset management. However, the very concrete role played by some members of this coalition is not well known. More precisely, in 1994-1995 the elite of this group, consisting of the heads of those companies that had international exposure and had adopted or were about to adopt the Anglo-Saxon model, got together and initiated collective agency. A few quotes from those who initiated the process are particularly enlightening, and show how they realised that they had to take on the whole industry. The main message of this elite of the French asset management business was that France was in danger, that something had to be done in order to resist the competition from foreign competitors. Times had changed and the French asset management industry, despite its large size and apparent power, was in danger of losing out to the international competition. The two following quotes, from two influential members of the Asset Managers Club, are particularly revealing of the process of collective agency, as well as of the message transmitted to the other coalitions of the field:

> We did some brainstorming with other people. We understood that the market had to evolve. The British sell the credibility of London; the Americans the credibility of the US. People have a certain image of credibility: Americans are regarded as good, safe, as having good products. There is the notion of stock market potential. We realised that we could not live with our SICAV. There was the challenge of Europe: we were already the first in Europe for mutual funds; to stay in the highest rank would be difficult. We needed to establish the credibility of France and of French professionals. (...) Times had changed. There had been a series of factors... at a certain point, things were mature; there was a willingness. I created the Asset Managers Club, with 5 or 6 people, in 94-95, with XX, XX, XX and XX. We felt the time had come and that it was necessary to organise as a profession. It was necessary to get out of monetary and small mutual funds. We had built an enormous back-office largely on monetary funds; we knew that all this middle and back-office should be used for something else. Hence the attempts towards de-merger, hence the La Martinière report, which we are some to have motivated, invented in some ways. We have continued our efforts.

[47] In this paragraph we use the term collective agency to define the various lobbying, influence, opinion and voicing from a group of individuals, who engage in a collective project and aim at the same objectives. We can contrast it with the concept of institutional entrepreneurship, as defined by Selznick (1954) and with that of collective action as defined by Olson (1965).

> What happened in France is the realisation that the reference market was where pension funds existed, in short the American and the British markets, where asset management was operated in a thoroughly different way. This was an autonomous revelation of French authorities, French associations and of certain big French players, that was catalysed by foreign competitors and consultants. But it was an autonomous revelation. (..) Some of us, who wanted to change the situation, created a small Club, which was the starting point for the La Martinière report, in order to exchange our views and to make Members of Parliament, public administration, journalists and a series of people sensitive to the issue. This was driven by a number of people. We tried to sustain a collective action from rule-makers, public authorities, some clients, the press, the academic world and a number of personalities, so that people would realise the obligation we had to change. Yes, we were the second mutual funds industry in the world, but we had, from a conceptual point of view, an outdated profession. We had large amounts of assets under management on one hand, and on the other, a lack of conceptual instruments that we could present to international competition.

Three individuals we identified who took part in the creation of this Asset Managers Club had certain things in common. They all had been in contact with the Anglo-Saxon model; they belonged to networks of Grandes Ecoles (HEC, ENA, X), and they had been part of the administrative elite, by working in the Treasury, or the Finance Inspectorate or with professional associations (Asffi, in particular). In other words, they represented a typical group of French business elites (Barsoux and Lawrence, 1997: 42-45). And they developed the same type of arguments as other French elites before them.

The way the problem was conceptualised was through the idea of 'credibility', which could be interpreted as a claim for legitimacy. Again, we can notice that the argument is reflexive: it integrates an understanding of self and of the others, as well as an understanding of the notion of competition among the laws (Woolcock, 1991). Globalisation, or rather Europeanisation in this case, was perceived by these people as putting direct pressure on the French system by exposing it to foreign competition. And in this reflexive process, the French elite of the asset management business expressed a major doubt about their system. We should remember a previous quote from one of the member of the Club: "For the Americans, we were barbarians!" Danger was identified in the present configuration of their industry, which was apparently large and powerful, but which was not in fact prepared to resist international competition, in their opinion.

To cope with the new environment, the whole asset management business needed to be organised differently, to become like the Anglo-Saxon model, which was the international standard, the standard that was most legitimate and that would conquer Europe. Their collective agency was targeted at various institutional levels, and not surprisingly, at the coalitions identified earlier: the state, collective opinion, bankers and insurers. The Asset

Managers Club developed the argument that the French asset management business was in danger. "If banks did not modernise, they would risk to see their clients taken by the Americans, who would do their speech about integrity, security, control, performance etc…", one member of the Club told us. They insisted that distribution networks would open up in the future, and that French players had to be ready to face international competition. Finally, there was the argument that the sooner the better: "It would be more costly to invest later, when all competitors are ready". All these arguments reflect some already identified in the problematisation of change in the French model. What is interesting in such a phenomenon is that it recalls traditional French activism as a way of achieving institutional change.

In fact, the message delivered by the elites of the French asset management business is almost exactly the same as the *American Challenge* of Servan-Schreiber. In 1967, Servan-Schreiber declared that in fifteen years time the third industrial power could be American industry in Europe (18), and that the superior competitiveness of American organisation, management and technology (61-62) required a radical reaction from France and Europe (168). "Find back, in front of the American challenge, the mastery of our destiny, requires becoming aware of it, then requires patient efforts" (171). And then he called for political and economic elites to stimulate debates and reactions, and organise the counteroffensive (227-246). We can see here the similarities with the position of the Asset Managers Club, who played this role of stimulation and reaction. Moreover, the way forward, suggested by Servan-Schreiber, was very similar to the propositions of the Club: not to close French borders, but to embrace the American challenge by strengthening competitiveness (173). In other words, in 1967 and in 1995, the rhetoric of French elites was the same: in the face of international competition, in the face of the expected invasion of Anglo-Saxon competitors, it is necessary to change and to adopt the international dominant standard of organisation. And again we notice a clear reflexivity in the debate itself, a capacity to look back to the French model and to distance oneself from it, in order to make it evolve. = ie lose it?

We have shown that behind the scenes some individuals had organised themselves to stimulate a change in the French asset management industry. However, on its own this collective agency from managerial elites was not sufficient. It needed a catalyst, a historical opportunity; in certain respects, in France at least, it needed a more fundamental endorsement by the State.

2.2. The MAF law and the La Martinière report

The catalyst for the transformation in French asset management, the foundation that would allow the creation of a new business which could eventually be organised in a way different from the French business system, is to be found in the combination of two events. The transposition of the European Investment Services Directive (the MAF law), and the publication of the report of a working group from Paris-Europlace (the La Martinière report) occurred in the same period and combined to create a momentum that was to change French asset management radically.

The first determining event was the transposition of the European Financial Services Directive. Debate had started in 1994, with a report from the financial commission of the Senate. At the end of 1995, and amid collective action from the Asset Managers Club, debate (what role?) started again. By this time, it had become clear that European Monetary Integration would take place. After the Madrid Council of December 1995, the doubts and uncertainties about the project had been lifted, with a strong commitment from Paris and Bonn to give birth to a single European currency on January 1, 1999 (*The Economist*, October 17, 1998). In this new context the European Investment Services Directive had become extremely important, because an inadequate transposition would mean a risk of the Paris Stock Exchange losing ground in a competitive market (Marini, 1996: 13). At the same time, Paris-Europlace, the association representing the Paris Stock Exchange and trying to help its development, set up a working group to examine the competitive situation of the asset management industry. Behind this initiative was an influential character in the French financial market: Gérard de La Martinière.

Gérard de La Martinière, ENA, Finance Inspectorate, had worked at the French Treasury until 1986, when he became the first president of the MATIF, France's futures market. He had been very successful, making Paris one of the leading exchanges in the world, especially because of the high degree of technicality and innovation in its products. But in 1996 he was also General Director and number three of AXA Group, at the time when AXA had just acquired UAP and become the world's leading insurer. Moreover, since AXA's acquisition of Equitable of the US in 1991 he had had a very good knowledge of the Anglo-Saxon model. In 1995, he was also a board member of Paris Europlace. In discussions of the competitiveness of Paris, Jean-François Theodore and the top management of Paris Stock exchange had a strategy of developing market transactions, through state-of-the art information systems, procedures and regulation: they believed they would win against Frankfurt or Amsterdam because transactions would be easier, quicker and more secure in Paris. In various meetings and informal discussions Gérard de La Martinière had expressed the view, arising out of his experience at MATIF and in America, that one of the key elements in the competitiveness of the Paris Stock Exchange was not only the operations systems, but also the capacity to develop a whole chain of financial actors: both issuers to increase the pool of securities in the market, and investors to increase the liquidity of the market. With large firms, start-ups and with privatisations to come, France was not short of issuers. However, it did maybe lack asset managers, a result of the lack of French pension funds and of a preference among small investors for bonds rather than equities. Consequently, Gérard de La Martinière was asked by his friends and colleagues from Europlace to investigate the French capital management industry in depth, in order to assess its competitiveness. He set up a working group, which started meeting in March 1996 and ended in October 1996. On July 11, 1996, the group gave the first conclusions of its meetings, at Paris Europlace International Day (*Paris Europlace*, 1996: 10). One week before, on July 2, 1996, the Modernisation of Financial Activities Law (the MAF law) had been voted. The La Martinière Group therefore accompanied and followed the parliamentary debates about the transposition of the Investment Services Directive. It is particularly interesting to look at the members of the working group, and at some biographic information, which shows how the members were closely linked to some of the coalitions identified earlier.

Table 14: The members of the "French asset management industry" group

Name	Functions	Some biographic information in 1996
Gérard de LA MARTINIERE, president of the group	General Director AXA	ENA, Finance Inspectorate, Treasury, First president of MATIF, which he made into a world leading derivatives exchange before joining AXA in 1990; brother of Dominique de La Martinière, finance inspectorate in the Economics Ministry
Pierre BOEGLIN, group secretary	ASFFI general delegate	
Arnaud de BRESSON, group secretary	Paris EUROPLACE, general delegate	IEP-Paris, Financial analyst-SFAF, worked at CDC until 1985, then CEO of Ficom
Catherine THERY, group secretary	Vice-president asset management department, Société Générale	
Jean TRICOU, on behalf of AFECEI (Association Française des Établissements de Crédit et des Entreprises d'Investissement)	Delegate AFECEI	
Jacques d'AUVIGNY, on behalf of AFEI (Investment Firms Association)	AFEI General delegate	
Paul Henri de LA PORTE Du THEIL, on behalf of ASFFI	Vice president, asset management department, Crédit Agricole	Aeronautics engineer and MA from Stanford University, various jobs at Crédit Agricole and Eurocard, before

		becoming head of the controlling division of CA in 1986. Head of asset management since 1991.
Marcel NICOLAÏ, on behalf of FFSA	CEO, UAP gestion financière	Financial analyst-SFAF, head of securities investment at UAP since 1981, established UAP Gestion in 1992-1993
Gérard BARBOT	Director of asset management, Caisse des Dépôts et Consignations	Treasury, appointed Finance Inspectorate in 1980, CDC from 1984, in charge of asset management since 1994
Monique BOURVEN	CEO, State Street Banque	IEP-Paris, academic job before joining Crédit Agricole, head of capital markets from 1985, from 1991 at State Street
Philippe COLLAS	Director of asset management, Société Générale	IEP-Paris, Société Générale Inspectorate 1976-1983, then assistant head of capital markets, in 1988 managing director of SG Merchant Bank London, 1992-1995 head of human resource of Société Générale
Philippe DELIENNE	CEO, CPR Gestion	Financial analyst-SFAF, vice-president of Crédit Agricole in Chicago, then head of the Treasury department; since 1988 at CPR
Alain DROMER	President, CCF Asset Management Group	X-ENSAE, Finance Ministry 1978-1981, Treasury 1981-1987, Edmond de Rothschild until 1991, when he joined CCF; son of Jean Dromer, French capitalist and former president of the French Banking Association
Gilles DUPONT	CEO Cholet-Dupont	IEP-Paris, 'agent de change' (stockbroker) since 1975, member of the Stock Exchange Council
Jean-Baptiste de FRANSSU	CEO Invesco France	Master in European Business Administration, actuary, journalist, joined TGF (asset management) in 1987 and Invesco in 1990
Daniel FRUCHART	Director, GAN	In charge of asset management since 1988
Alain GERBALDI	Vice president, Fimagest	X-Pont, worked with politicians in Paris and Marseille until 1988 when he joined Fimagest
Gilles GLICENSTEIN	Associate Director in charge of asset management, BNP	IEP-Paris, ENA, Finance Inspectorate, in charge of strategic development at BNP in 1994 before taking over institutional Asset Management in 1996
Christian de GOURNAY	Vice president, AGF	
Jean-Pierre HELLEBUYCK	President AXA Asset Management	Master in European Business Administration
Alain HINDIE	Director of asset management, Crédit Lyonnais	HEC, Financial analyst-SFAF, head of asset management since 1990, ASFFI committee member
Guillaume JALENQUES de LABEAU	President, Privée de Gestion et de Conseil	
Alain Leclair	Vice-President, Paribas Asset Management	HEC, IEP-Paris, managing director of AG Becker in 1983, head of Paribas AM since 1987, ASFFI committee member

Source: La Martinière report, various newspapers and author

It should also be mentioned that François Delooz, head of the savings and asset management department at the COB (Stock Exchange Commission), was an observer of the group, which meant that he took part in all the meetings (*MTF-L'Agefi*, 86, December 1996). The working group met regularly on Fridays at 9:00. "It was very methodical", commented someone who took part, especially because it was the first time that asset management had been considered on its own, the first time that the exact number of people working in this business and the exact size of the market had been calculated precisely. And according to some members, La Martinière, whose name and reputation were in the balance, did a very good job of covering the important issues.[48] All aspects of the subject were reviewed and a number of people were invited to present their views and opinions on how the French asset management should be organised. Altogether, twenty-one people were invited and it is worthy of note that many of them belonged to the Anglo-Saxon world: one vice-president of TIAA-CREF, one of the largest US pension funds, two US investment consultants, two rating agencies, one auditor from the Big Five, one US asset manager and two French expatriates in the US. In fact, this means that the debate in the working group, because of its members and because of the people interviewed, was related to many of the coalitions we identified earlier. Strikingly, retail banks were not well represented in the proceedings: only one bank manager was interviewed and no banking association or professional was in the group. To characterise the discussion, it appears from the comments we gathered that the La Martinière group perceived itself to be on a mission: to show that asset management was a genuinely separate business, that it had an existence of its own, different from retail banking, as expressed by one of its members:

> A strong interest was shown in the opportunity to take part in the birth of a new business. I found people who were highly motivated to give their contribution to this exercise. (..) We gathered with the young ambitious people of the sector, who wanted to show that they existed and that they could have their share of paradise. This was coupled with the re-birth of Asffi, which gave itself the mission to gather all asset management professions. They seized a political opportunity.

Given its members, the La Martinière group was therefore a catalyst able to offer a forum to some coalitions, in particular the Asset Managers Club and the Anglo-Saxon players. It allowed their voices to be heard and legitimised them, especially against retail banks. And importantly, it influenced and reinforced what was happening in the Parliament, in the debates re-defining investment services.

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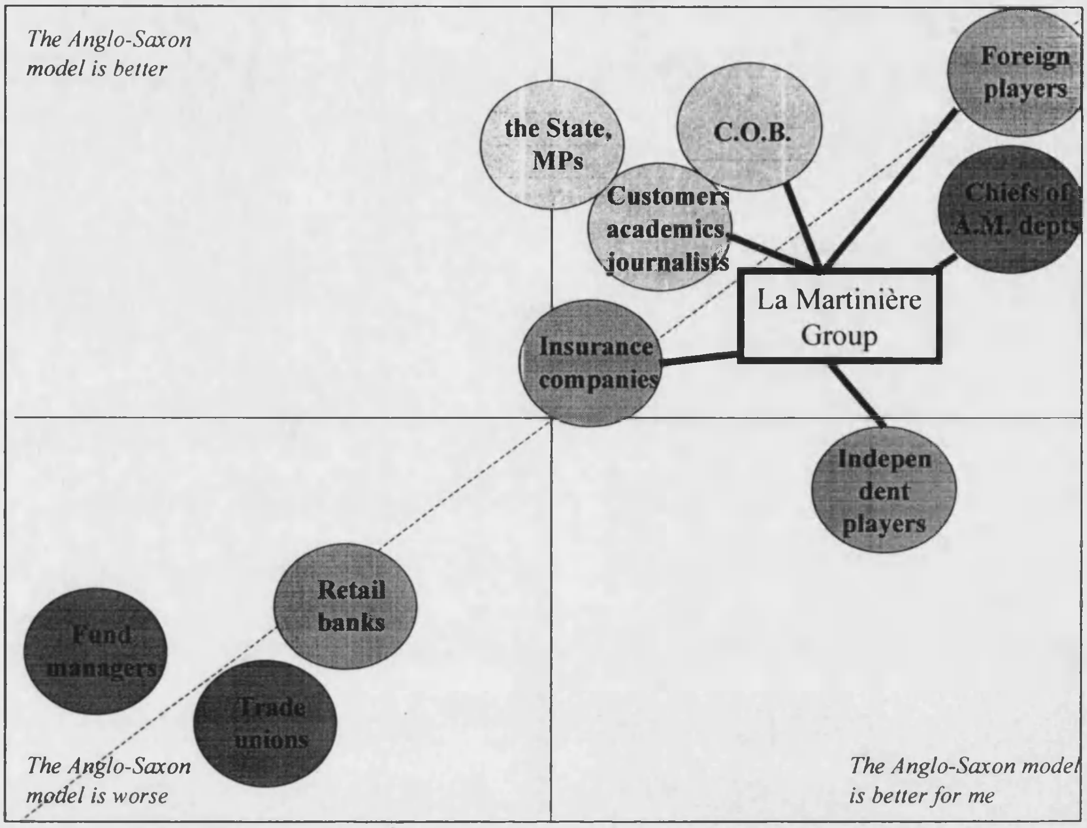
[48] Anecdotally, the name of La Martinière was mentioned several times in 2000 to head ~~to~~ the prospective financial markets authority, which could gather all supervisory bodies into one, following the British example.

Figure 35: The La Martinière Group as a catalyst for shifting the debate



The MAF law was voted in July 1996 and the greater part of its second hearings occurred at the same time as the La Martinière group was working. Portfolio management is one of the investment services identified in the Directive. In France, UCITS were covered through the 1989 law, which gave supervision to the COB. But asset management covers not only UCITS, but also mandates. The European Directive was not specific about who should supervise these mandates. In the MAF law, something relatively unexpected happened, however, which was to change the face of the organisational field.

First of all, we can confidently assume that collective agency, as well as the proceedings of the La Martinière working group, had some impact on the parliamentary debates. We know that the Asset Managers Club had done some active lobbying, and that the members of the group had connections with the political world. Members of the La Martinière group were invited to hearings in the preparation of the preliminary report of April 1996 (Marini, 1996), and their work was apparently well known, since one parliamentarian even referred to it (Senate, session of May 2, 1996). Then certain events, e.g. the Pallas Stern Bank scandal, seemed to emphasise the wisdom of a separation between retail banking and asset management for third parties. The Pallas Stern Bank entered a bankruptcy procedure on June 22, 1995, and was liquidated in 1997, together with its parent company Comipar. Pallas Stern was a well-known player in the asset management business and its bankruptcy was the largest since World War II (*Les Echos*, October 5, 1995). The case revealed the dangers of vertical integration. Eskenazi, president of Pallas Stern, was also president of Comipar, the principal shareholder in Pallas Stern. In 1992, 1993 and 1994, together with other top executives and with the complicity of the external auditors, he provided false information about the financial situation of the bank. These facts were recognised in March 2001, when the protagonists were sentenced to pay large fines and in some cases even to jail (*Les Echos*, March 2, 2001). Pallas Stern showed clearly that vertical integration could lead to a mismanagement of investors' portfolios and to a dangerous lack of transparency. In other words, it was a further blow, after Crédit Lyonnais, to the French model. But what actually led to the organic differentiation of asset management, and hence to its constitution as a new organisational field, was something that could easily have seemed a mere technical point in the law.

exact role of the group?

In the last reading of the MAF law, in the Senate, senator Marini observed that the shape of the law lacked consistency. Although portfolio management was recognised as one financial service in the directive, there was no single vehicle for providing it: on the one side there were UCITS, and on the other many companies were entitled to manage portfolios. Here again we find one of the core arguments of the La Martinière group. Marini proposed the creation of a new type of company: the Portfolio Management Company, which would be authorised to manage not only UCITS but also investment mandates. With this single legal entity, the structures would be more coherent. Moreover, the MAF law decided that the COB should be the only supervisor for this new Portfolio Management Company. Again, this was consistent with the fact that the COB already supervised UCITS. By this legal innovation the MAF law went further than the directive. It may not have been foreseen at the time that it had implicitly created a new organisational field: asset management as a single business, independent of banking. The State had endorsed the position that the structures of the Anglo-Saxon model were more appropriate.

2.3. Conclusion: a new organisational field

We are now reaching the concluding part of the adaptation: when asset management emerged as a new business, it could take on new rules of organisation and behaviour. In 1996, two specific events colluded to promote asset management as a new business. The La Martinière report provided a forum of discussion, and a legitimisation vehicle for some coalitions in the field pleading in favour of the Anglo-Saxon model. At the same time, the transposition of the Financial Services Directive recognised that asset management was a business on its own and provided a new legal vehicle to operate it. A more detailed examination of the MAF law, of the La Martinière report, and of some further developments at the professional level, will show that the Anglo-Saxon model provided a template for the new rules of organisation and behaviour that were established with the creation of the new field.

The decision to create the Portfolio Management Company (SGP) and to put it under the single supervision of the COB meant that asset management was now considered a separate business from banking or insurance. However, the law did not require de-merger. But de-merger, together with "the creation of a strong and powerful professional association" (13), was one strong recommendation of the La Martinière report. In other words, the Anglo-Saxon model of asset management as a strong independent business was promoted. Even more, the suggestion to "adopt an appropriate marketing strategy by rationalising the product range, reaching alliances with distributors, communicate" (11) is none other than the Anglo-Saxon *entrepreneurial synthesis*. It is surprising how similar the new principles of organisation principles advocated in the La Martinière report are to the patterns of the Anglo-Saxon model. For instance, in its executive summary, the La Martinière report recommended improving the division of labour within asset management to recognise each specific function in the value chain (7), which was a rejection of the French model in which the fund manager supervised everything. Combined with a wish to differentiate the conditions of employment for asset management, this represents a clear move towards the Anglo-Saxon *conception of control*.

Furthermore, the La Martinière report suggested supporting the setting up and development of investment consultants, of performance rankings and of rating agencies (6), as well as the development of codes of good practice and the increased formalisation of distribution contracts (5). This too was undoubtedly a departure from the French model and an imitation of the *organisational routines* of the Anglo-Saxon model. In conclusion, by constituting asset management as a new organisational field and by providing new rules to operate it, it was possible to implement the Anglo-Saxon model, in a sub-system deviant to the French business system. But to do that, some institutional agents and some calculation tools were necessary, in order to implement the new rules of the game.

3. After 1997: institutionalisation and differentiation

We saw in the last paragraph how asset management emerged, at the end of 1996, as a new organisational field, as a new business distinct from other financial services. We also underlined that the MAF law and the La Martinière report had provided some new rules for it that looked similar to those of the Anglo-Saxon model. We will now show how the patterns of the Anglo-Saxon model could be enforced and institutionalised in the newly constituted organisational field, and how this led to some differentiation between those companies that retained the French model and those that moved to the Anglo-Saxon and trans-national model. In particular, this will be the occasion to underline the role of institutional agents and of calculation instruments in this last stage of adaptation. We will also refer back to our theoretical framework, to notice how isomorphic pressures resulted in companies adapting as a result of their adoption of the Anglo-Saxon model.

3.1. Enforcing the law: the coercive role of regulatory bodies

The MAF law was voted in July 1996 and the La Martinière report published in September 1996. From 1996 onwards, the number of de-mergers accelerated. However, it would be misleading to believe that just because asset management had been recognised as a new business, market players would depart from their current practices and behaviours, in short from the French model. Before any isomorphism could be observed at the level of the whole industry, there was a need for some political pressure, something we consider relatively underestimated in the analysis of Powell and DiMaggio (1983). We will observe a series of oppositions and struggles, from the actors in the field that we had identified as opposed to the move to the Anglo-Saxon model. We will also recognise the capacity of some institutional agents to enforce the law and the new rules. Moreover, we will observe how the three layers of analysis in our framework are linked together: once the entrepreneurial synthesis was in place, a new conception of control and organisational routines could be implemented. These three layers then combined to constitute new patterns in line with the Anglo-Saxon model.

3.1.1. Oppositions, debate and struggle

We identified several coalitions that opposed the Anglo-Saxon model. When asset management was constituted as a new organisational field, they tried to resist the move. However, this attempt did not succeed, thanks to certain regulatory bodies.

First of all, fund managers tried to voice their opinion of the Anglo-Saxon model internally. They tried to struggle against their chiefs, and to put forward arguments against the new situation. However, they were not given much chance. A number of older fund managers were made redundant, or had to change jobs at the time when investment processes were put in place. *J.-P.*, CEO of an asset management firm, explained the impact of the introduction of an investment process:

> We developed and expanded our fund management teams extensively. (..) There are not so many older fund managers. Some of those who were there before could

> not adapt and thus are not with us anymore. Others are integrated within teams and therefore not alone on their products. They more or less accept it. Those that cannot accept it, well, change jobs.

The fact that young people could be recruited and could successfully replace the older generation of fund managers made the latter's complaints unsuccessful. They could not claim any monopoly of the abstract knowledge of managing funds, in part because younger graduates had had a good training, and one that focused more on quantitative methods. To use Pfeffer's argument, it meant that the old fund managers could not claim to be a key resource in the way they had been in the mid-1980s; hence they lost organisational power (Pfeffer, 1982: 192; Pfeffer and Salancik, 1978: 39). Consequently, they could not stop the creation of autonomous subsidiaries. Moreover, with the new flexibility provided by de-merger, the old fund managers could be made redundant more easily; and the new employment contracts established a new governance structure and increased the power of the employer (Williamson, 1985: 248-252). Fund managers had to comply with the new work organisation. And they may have seen some financial opportunity in the new structure; they realised that an autonomous subsidiary might give them bonuses and higher pay. All these elements prevented fund managers from blocking either the de-merger process or the establishing of a new *conception of control*. Two other coalitions tried to resist the move towards de-merger.

One was the trade unions. In 1996, Société Générale faced some reactions from the trade unions when it expressed its intention of creating SGAM as an autonomous subsidiary devoted to asset management, and of not applying the banking collective agreement within this new subsidiary. More precisely, as one human resource manager explained to us: "the top management was confronted with a fierce opposition from trade unions, who did not want to lose the benefits of the banking collective agreement". And the opposition was fierce indeed, leading in 1996 to a series of high profile law suits against Société Générale, in the attempt to prevent the creation of an autonomous subsidiary Société Générale Asset Management (SGAM). In this battle, all of the trade unions representing the banking sector combined: FO (Force Ouvrière), CGT (Confédération Générale du Travail), CFTC (Confédération Française des Travailleurs Chrétiens), CFDT (Confédération Française des Travailleurs) and SNT (Syndicat National du Trésor). They attacked the decision of Société Générale not to allow the so-called 'core-workers' of the asset management business, 110 employees in all, to remain within the national collective agreement. Société Générale used article L.112-12 to transfer employees and their contracts to the new entity SGAM, as happens in the case of the sell-off or acquisition of a new company. The trade unions claimed that this was an abusive use of the law, and that it introduced a discriminatory measure and meant the loss of an advantageous status. The issues at stake were broader than just SGAM, said the trade unions. As explained in an article covering the trial:

> It was regarded as a test about the departure from universal banking for the adoption of a structure -more Anglo-Saxon-, where the activities different from the actual job of banker, are de-merged. "Today, this experiment is a test, and in the short run, markets and stock-broking activities on foreign exchanges will be directly concerned" said a union representative. (*L'Agefi*, January 14, 1997)

It is all the more interesting that Société Générale explicitly referred to the MAF law and the La Martinière report when arguing in favour of de-merger, saying that it was a necessary move to cope with increased competition and with the demands of foreign clients. We will see in the next paragraph that the unions were defeated in their attempts. Further opposition came however from other retail banks, which unlike such leaders as SGAM had not been convinced that de-merger was an appropriate solution.

Retail banks tried first to damage the collective agency lead by the Asset Managers Club and by the La Martinière group. Even though they were not represented in the group, retail banks tried to influence the conclusions of the report and to oppose the de-merger of asset management activities. One of the group members recognises the difficulties:

> This [La Martinière] report eased organic differentiation, which means that most of the financial houses had to de-merge later. Even those who were reluctant had to do it, because of the dynamics created. (..) This being said, we had some difficulty drawing a synthesis. In particular, regarding some corporatist aspects…
>
> Interviewer: like what?
> To free asset management from banking.

There was some background resistance to the La Martinière report from the banking profession, which resented a de-merger process that took away from it a profitable and fast-growing business. The constitution of asset management as an autonomous organisational field was an implicit threat to the professional power of the banking sector. One interviewee even told us that 1998 there had been some manoeuvring by the French Banking Association in the attempt to ensure that Alain Leclair, the champion of an autonomous asset management business, would not be re-elected as president of AFG-Asffi. They tried to push for a president who was more in agreement with the priorities of retail banking (unsuccessfully, however). The banking coalition's resistance to the constitution of asset management as a new organisational field continued for some time. This was confirmed by the COB, when it noticed that some retail banks had suggested that the MAF law be applied in a lenient way. The arguments that were used to persuade the COB not to be too difficult with retail banks ran as follows: "You know me, you have known me for a long time, why not adopt a relaxed position towards the law? It will be all right!" Retail banks tried therefore to resist the implementation of the new rules of the game at all levels: institutional, professional and regulatory.

In summary, we can say that there was some opposition from some coalitions to the creation of asset management as an autonomous organisational field. However, they soon had to realise that their efforts were bound to fail and that they would have to comply with a new model.

3.1.2. Coercion: enforcing the law

In many ways, the turning point in terms of organisational adaptation was the creation of autonomous subsidiaries. They were the response in terms of governance structure to the new *entrepreneurial synthesis*, and they removed obstacles to the implementation of the new *conception of control* and new *organisational routines*. We now show how the opposition to autonomous subsidiaries was soon defeated. A first blow to this resistance came from the tribunals, who did not oppose Société Générale's de-merger. Then, the COB played a critical role, in the sense that it strongly advocated the creation of autonomous subsidiaries. In short, it not only legitimised the superiority of the Anglo-Saxon model, but also enforced the new MAF law in a way that would privilege the adoption of this model.

First of all, the opposition from the unions proved unsuccessful in the tribunals. In January 1997, the Paris tribunal (Tribunal de Grande Instance de Paris) ruled that de-merger was legal and could not be opposed. The verdict was appealed by the unions, but they lost again. Consequently, SGAM was recognised as an autonomous establishment, and was thus allowed to have its own labour contracts. In other words, the tribunal had given a legal backing to the constitution of asset management as a new organisational field; it had made it possible for banks to create autonomous subsidiaries and to implement new human resource management rules, something that had previously been impossible because of the national collective agreement. It had made it possible for these subsidiaries to abandon the national collective agreement, and thus to implement practices inspired by the Anglo-Saxon model and different from those of other French companies. The tribunals therefore silenced one voice opposed to the development of a new sub-system with patterns deviant to the French model. Further strong backing came from the COB in its new supervising role for the totality of asset management activities.

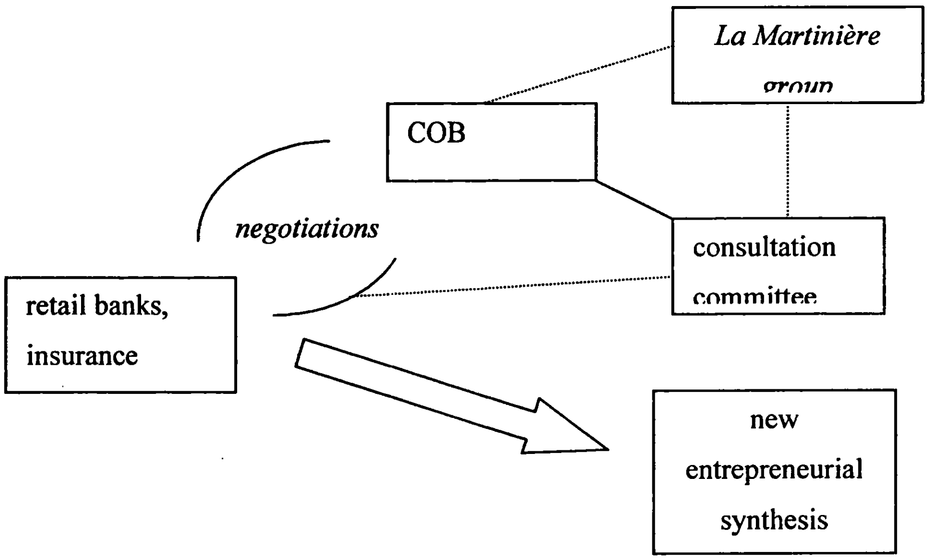
We should recall that the COB had attended the meetings of the La Martinière working group. Although the COB was at first opposed to de-merger because this would increase its workload, it appears from our interviews that the COB became increasingly in favour of de-merger, and in agreement with the conclusions of the La Martinière report. As one delegate told us:

> We wanted it. De-merger has some merits, in terms of clarity, there cannot be any interference, and there is more ethics. With de-merger, you can organise a Chinese Wall that is more efficient.

In other words, while the COB was fairly neutral in 1994, by 1996 it, like the State, had been convinced of the benefits of the Anglo-Saxon model. And it acted upon companies so that they made a move, in terms of changing their *entrepreneurial synthesis* and departing from the French model. In practical terms, the move operated through the creation and licensing of a *Société de Gestion de Portefeuille* (SGP, Portfolio Management Company), the new legal entity created by the MAF law. Over the period 1996-1998 the COB processed in total some 280 files, since it was in charge of approving the applications and issuing the license to manage portfolios. The licensing procedure stipulated that the COB had to look in detail at the means and the resources at the disposal of the SGP, and at the ethical standards of the owners and chief executives. It would accept the application only if certain standards in these respects were met, and after hearing the opinion of a Consultation Committee made up of asset management professionals. Through these legal powers, the COB was able to influence substantially the structures of the new SGP. It is interesting to look more precisely at the ways it used to achieve this.

First of all, the COB had to face opposition from retail banks and from insurance companies, both of which resented the move towards de-merger as increasing costs, and as attacking their previous integrated model of organisation. "The resistance came mainly from medium and small banks," one delegate told us: "the large banks did it very swiftly: they could tell their bosses that the COB was demanding de-merger". But those working in the large banks were precisely the coalition of the heads of fund management department. Here we see how they used internally, to convince their own bosses, the external legitimacy of the COB, of the State. This confirms the view that organisational power needs to be legitimised externally, as foreseen in our theoretical framework. For the rest of the industry, the move had to be vigorously negotiated: according to one COB delegate, it was sometimes necessary to address even the company board, in order to ensure that some banks or insurers agreed to de-merge their asset management activities. "It was a considerable work," he told us. Each application was treated individually, in order to convince people of the advantages of the move and to make sure that they would comply with the requirements of independence and sufficient resources.

One argument was to say that de-merger would help seduce international investors, that it was looked on favourably by the clients. There was also the argument that everybody was doing it, and that the La Martinière group, with all its prestige, had strongly advocated it. In other words, the COB did a great deal of work in order to persuade firms to change their *entrepreneurial synthesis*, and also in making sure that they were doing it properly. In constituting a new organisational field it was thus advocating the Anglo-Saxon model and enforcing it. Another interesting negotiating trick resulted from an institutional coincidence. Half of the members of the Consultation Committee, the committee that advised on the licensing of SGP, were former members of the La Martinière working group. The net could thus close around the banks and insurance companies, which had to abide by the rules promulgated by the COB, rules which had been drawn up by those coalitions in favour of the Anglo-Saxon model.



3.1.3 Conclusion

With this specific role of the COB, the *entrepreneurial synthesis* was changed: in 1997, new subsidiaries were created and there were guarantees in place that this autonomy was not a simple formal makeover.[49] Asset management was recognised as a new business and this recognition could not be removed, because it had taken place in the very structures of companies. What is particularly interesting in the process we described is that it had to be fought vigorously. The establishment of the new isomorphic structure, based on a de-merger of asset management activities, was not a natural and docile process; it was inherently political and battled through. As such it supports the view that institutional accounts of organisational change and adaptation should not underestimate power and conflict (Fligstein, 1991: 312; Scott, 1995: 113; Whitley, 1999: 14). We have shown how eminently political and confrontational the establishing of asset management as a new autonomous field was in France in 1996-1997. The State had legitimised the idea that the Anglo-Saxon model was desirable for French asset management companies. This opened new possibilities for firms to change their organisation, their human resource management and *organisational routines*, which eventually resulted in isomorphic patterns of organisation and behaviour. Here we find a compelling illustration of the mechanism of constitution and structuration of a new organisational field (Giddens, 1979, 1983). As pointed out by DiMaggio (1991):

> The neglect by researchers of structuration processes provides a one-sided vision of institutional change that emphasizes taken-for-granted, nondirected, nonconflictual evolution at the expense of intentional (if boundedly rational), directive, and conflict-laden processes that define fields and set them upon trajectories that eventually appear as "natural" developments to participants and observers alike. (268)

The development of the isomorphism we observed in January 1999 required the previous structuration of the new organisational field. Moreover, the legitimisation of the new practices was also complemented by the role of other institutional agents and of calculation tools, which made it possible to structure and to institutionalise the new model as a sub-system integrated in trans-national networks, and deviant to the French business system.

3.2. Sustaining the new field: institutional actors and calculation tools

We have seen that it was possible to constitute asset management as a new field autonomous from other financial services, in particular because of the work of professionals around the La Martinière group, and because of the State, working especially through the COB, and because of the tribunals, who stopped the opposition from trade unions. However, for the Anglo-

[49] A good test for the reality of this autonomy was provided by the BNP-Société Générale-Paribas saga: the COB investigated how the asset management subsidiaries of these three banks had behaved in relation to the take-over bid. No improper behaviour was identified (*Les Echos*, August 11, 1999).

Saxon model to be adopted by the majority of companies in the newly established field, a series of institutional and competitive elements had to push adaptation processes further in the same direction, by structuring the field. In particular, institutional agents and calculation tools provided isomorphic pressures (DiMaggio and Powell, 1983), which in turn stimulated the adoption of the Anglo-Saxon patterns of organisation and behaviour.

3.2.1. Diffusing the new model: management consultants and adaptation processes

Given the developments previously described, it is clear that the La Martinière report and the State played a key role in defining asset management as a new business and in providing some new rules for this business, in line with the Anglo-Saxon model. The COB pushed towards the creation of autonomous subsidiaries, thus legitimising further the move towards constituting a new business. AFG-Asffi, the unified professional association created in January 1997, contributed by defining professional rules and codes of conducts:

- in April 1996 a new code for mutual funds was established
- in April 1997, a new code for asset management under mandates
- in June 1998, propositions about corporate governance issues
- in September 1998, a code of ethics relating to performance measurement and rating

Taken together these elements were strong factors establishing an institutionalised rationality, or rational institutional myth (Meyer and Rowan, 1977) that the French model was outdated, and needed upgrading. They also provided some new rules and standards, in line with the Anglo-Saxon model: as already underlined, the La Martinière report, the MAF law and the AFG-Asffi codes of conduct were all very much inspired by Anglo-Saxon patterns. French firms had already changed their *entrepreneurial synthesis* when establishing autonomous subsidiaries. However, for them to adapt further, to depart from the French model and to adopt the Anglo-Saxon one, another step was required. And here we see the role of some institutional agents, more precisely, of management consultants, who together with other professionalisation processes, made it possible for the new rules to be diffused across the new organisational field.

Management consultants are companies that advise firms how to improve the organisation of their activities. In the asset management business too, there are some established management consultants. In France, companies like Frank Russell, Watson Wyatt, Mercer, Deloitte & Touche, and McKinsey all offer this kind of service. As one American investment consultant explained to us: they offer to audit investment companies and to tell them how good they are in comparison to the best practices in the industry. From their role in advising investors, investment consultants have indeed the opportunity to scrutinise very precisely individual companies. This makes them very knowledgeable about the actual organisation and practices of these companies, and especially those of market leaders. It is interesting that most of these consultants are actually of American or British origin. In other words, when they say best practices in the industry they mean Anglo-Saxon practices, which are the practices of the world leaders. Over the period 1995-1997 a large number of French firms hired such advisers, as this director of an asset management firm explains:

> With the ambition to be as good as the Americans, to have processes, to build up structures, there were companies like Frank Russell, who went to almost all companies on the financial market and said they should have dedicated means, organise processes. (...) The role of the consultants was determining. Frank Russell had a quasi monopoly; they advised at least half of the players and almost all the banks. They told them: you need to have well identified benchmarks, dedicated specialists, analysts, fund managers, instruments for risk management, a targeted approach etc... (..) Frank Russell sold what some Americans were doing. I even find that French companies did not go and see what the Americans do. This was all viewed through the consulting prism.

In other words, Frank Russell and other management consultants played the role of spreading across the newly created field the institutionalised rationality borrowed from the Anglo-Saxon model. As institutional agents, they contributed to the structuring and rationalising of the field by determining which practices were "good" or even "the best", thereby enhancing the production of what Whitley (1992) calls business recipes. It should be noticed that the recommendations of these institutional agents were instrumental in re-defining the *conception of control* in quite a few firms, as illustrated by the following two examples:

> We did a lot of work with a consultant. We said to ourselves that we were in an asset management business, in an Euro world. Thanks to the merger we could start a new organisation from scratch. (..) We had 3 objectives:
>
> 1. To be able to respond to the needs of big French and foreign institutional clients.
> 2. To be level with international standards. This was part of our objectives to follow Anglo-Saxon norms, because they are the norms of the profession.
> 3. To be straight away in a European panorama. (Director of an asset management company, subsidiary of a leading retail bank)

> There was an audit of the asset management organisation by Frank Russell to evaluate its strengths and weaknesses. This has led to an evolution in the organisation. Frank Russell told us to develop a buy-side analysis. They recommended us to create an equity table, so that fund managers do not have to spend too much time at looking for the best brokerage costs. A department was created. They told us to define a process, which means an investment methodology that is not based on intuition, but where the process is formalised to ensure its actual implementation within a team, its persistence and possible presentation to institutional investors. We created a service to reply to invitations to tenders. (Director of an asset management firm, subsidiary of a leading retail bank)

As we can see, the role of these management consultants was therefore very important in stimulating and better formulating the new patterns of the French asset management business. They supported various adaptation processes, and in particular the change of *conception of control*, by explaining the best way to organise. And what they transmitted, assuming people listened to their recommendations, was none other than the practices of the Anglo-Saxon model. Because asset management was newly created and therefore uninfluenced by any pre-existing institutionalised rationality, the new precepts could take over. Furthermore, the diffusion of the new patterns was extended through subsequent or simultaneous adaptation processes.

Some French asset management companies have indeed learned from their competitors, by hiring some of their workers and/or copying those companies they perceived as leaders. For instance, some companies might attempt to steal effective and successful people from their competitors, in order to learn the best practices from these new recruits. Some examples illustrate these learning processes. For instance, in 1988 Paribas was the first company to create a subsidiary dedicated to asset management, and it was therefore considered by many observers as more advanced, in terms of its alignment with Anglo-Saxon practices. And some of its employees were indeed hired by competitors, which hoped that they could learn from the new recruits. This was the case of Jérôme de Dax, who in 1995 moved from Paribas Asset Management (PAM) to SGAM, in order to create a new marketing division dedicated to institutional investors. And he then brought in Jean-François Hirschel from PAM, to take up the reporting function (which is important in institutional marketing and sales). Another employee of PAM, Patrick Roy, was hired by CDC AME to become the board director. Another professional, Charles-Etienne de Cidrac, who was working with Jérôme de Dax at SGAM, then left for AXA Investment Managers, where he became the manager of relations with consultants, another key aspect of institutional marketing and sales. There were a number of such moves, and they show how firms learned from each other through the exchange of human resources. Obviously, companies recruited externally too, as well as from consultants. They thus were able to learn from new recruits coming directly from school or from other countries, as these directors of portfolio management companies explain:

> We took people from our competitors, and we trained others. (..) We recruited analysts, including Anglo-Saxons, and for that reason a part of our analysis is in London.(...) Deliberately, we chose someone who was not French to be in charge of the research team. We have international teams. There are many French, but the last ones we recruited were English. The chief analyst is Canadian, he speaks French and English perfectly and has worked in a non-French company before.

In consequence the new institutionalised rationality and the new *organisational routines* expanded. Again, we see that leading firms played the role of institutional agents; this coincides with the view of Meyer and Rowan (1977), who recognised in leading firms an important vector for the rationalisation of fields. The asset management professional association, AFG-Asffi, had an important role in stimulating the adoption of new rules and codes of conduct. In 1996, 1997 and 1998, it issued a series of codes of conduct and codes of ethics which stimulated French firms into changing their behaviour and adopting new standards. Interestingly, the AFG-Asffi rules duplicated to a large extent the prescriptions of British and American professional associations. This was confirmed by our interviewees, and can be observed, for instance, in the prescriptions relating to performance measurement: there are many similarities with the code of conduct of AIMR (American Investment Management Research association).

As the use of rationalised institutionalised rules became more widespread in the asset management business, the adaptation process of change in the *conception of control* expanded by acknowledging the new rationality as the best way to organise. A rapid review of the financial press shows that after 1996 many companies introduced investment processes or declared their intention to do so, which indicates how the new *conception of control* was being institutionalised. For instance, in the field of insurance, in 1997 AGF de-merged its activities and introduced an investment process (*Les Echos*, November 14, 1997), and in 1998 Groupama created Groupama Asset management and Azur GMF Boissy Gestion to run their asset management activities (*L'Argus*, June 26, 1998). The same could be said of retail banking: in August 1998, Crédit Lyonnais created its CLAM subsidiary dedicated to asset management (*La Vie Française*, August 7,1998); this was the last in a series of de-mergers, by Société Générale in 1996, BNP in 1997, Banque Populaires in 1998, CIC in 1997, Crédit Mutuel in 1997 and so on. And each time the de-merger process provided the occasion to re-organise the company structures and practices, so that most companies adopted an investment process and new *organisational routines* around this period. In other words, there took place progressively, from 1996 onwards, the establishment of some kind of isomorphism in the totality of the population of firms in the French asset management industry.

In summary, we can say that several institutional agents contributed to the structuring and rationalising of the newly constituted asset management organisational field. And certain calculation tools, combined with other agents, contributed to the strengthening and implementing of these rules, which resulted in isomorphic developments.

3.2.2. Calculation tools, rating agency, investment advisors

At the same time as institutional agents elaborated the new institutionalised rationality about how best to organise and diffused it to the organisational field, others factors contributed to inhabit and sustain the new *entrepreneurial synthesis* and new *conception of control* by providing new *organisational routines.* Tools and techniques prevailing in the Anglo-Saxon model could be transported and imposed in the newly constituted field, thanks to the role of such agents as investment advisors and rating agencies. The new calculation tools, like performance and risk measurement, implied new *organisational routines* that enabled the new field to structure itself further and to develop systemic ties. In other words they contributed to rationalise and institutionalise the business recipes developed at the level of the field, and to bind together the new *entrepreneurial synthesis*, the new *conception of control* and the new *organisational routines.* From the evidence provided in the case study, and echoing Berger and Luckmann (1967), Giddens (1983), Meyer (1994), Miller and O'Leary (1991, 1993, 1994) and Powell (1991), we can therefore develop an understanding of how fields are constituted, established and institutionalised, and how this contributes to isomorphic processes.

The departure from the French model and the adoption of the Anglo-Saxon one was not an overnight process. It was not because asset management was recognised as a new business distinct from banking that French firms suddenly changed their patterns of organisation and behaviour. We have already shown that over the 1984-1996 period they had learned some new *organisational routines*, through a broad confrontation with Anglo-Saxon practices. The radical change of 1996-1997 resulted in firms creating Portfolio Management Companies. This meant recognising that they were no longer merely the back-office of a distribution network, but had now to attract new clients. The new *entrepreneurial synthesis* followed therefore the one of the Anglo-Saxon model. Moreover, through the role of the COB, the prescriptions of the La Martinière report, and the input from management consultants, a new *conception of control* was able to gain ground. Deontology, and not only performance but also risk, regularity and investment processes were some of the business recipes that became institutionalised in this period. But before any kind of isomorphism (Powell and Di Maggio, 1983) could be observed, the institutionalised rationality had to be diffused in the concrete practices of French firms. The structuration process requires that the actors of the field produce and reproduce in interaction the structural properties of the social system (Giddens, 1983: 25). It requires that they develop recursive practices, which both constrain and further enable their actions. In our case study, this means that they needed to depart from the patterns of the French model and adopt recursively the new patterns of the Anglo-Saxon one. If not, the French model might have been temporarily shattered, but it would not have been replaced by the new situation we identified in the previous chapter. We can show that the routinisation of the new patterns came from specific calculation tools that allowed external pressure and scrutiny.

The following quote is particularly revealing of the reflexive dilemma within the structuration process: while agents were knowledgeable of the institutionalised rationality, they did not immediately depart from the old routines of the French model. If this eventually happened, it was because of supplementary constraints:

> At least at the beginning, investment processes, which were compulsory for invitation to tenders and for the presentation of a series of norms, were prepared by the marketing people. There was no intellectual value-added but rather an organisational one, together with some formalisation through objective elements. There was an underlying argumentation, a certain speech that sales people have to give, like for instance for invitation to tenders. The sales or marketing person knows that he or she has to say this or that to be selected: they would say 'top-down' ... 'bottom-up' while knowing that fund managers would fight for their views and do whatever they like in the end. But there again, the pressure from clients and from consultants resulted in jargon and political cant becoming a requirement, a duty and a structuring element. (..) And this is why consultants were needed; they made sure that words would fit reality, that we would do what we said we do. (*J.-M.* former controller in an asset management firm)

Here we briefly can show how structuration (Giddens, 1983) and co-evolution (Coriat and Dosi, 1998) took place. Within the new *entrepreneurial synthesis* after de-merger, asset management companies had to target more precisely clients' needs and were not prevented from doing so by the integrated structures of the French model. But institutional clients in particular had become keen on receiving explanations and on measuring risk. As Alain Leclair declared in 1995: "While the objective for an institutional client used to be mostly the performance [of the fund], our priority is today to find out which risk he is ready to take for a given performance and a given time frame" (*Option Finance,* 371, September 1995). The introduction of new calculation tools provided the support for the satisfaction of these new demands, which were typical of the Anglo-Saxon business system. This is where investment advisors and rating agencies played a key role. They arrived in France in the 1990s, with experience of Anglo-Saxon markets and with a series of instruments dedicated to measuring, auditing and controlling the behaviour of asset management firms. Because clients were now recognised formally, client relationships could become more formalised, and in this process the investment advisors were able to diffuse the Anglo-Saxon routines. Gaël de Pontbriand, partner at Coopers&Lybrand Corporate Finance explained in April 1998:

> The demand for increased professionalism first came from institutional investors and is now generalising to private investors. The methods to select an asset

> manager are very rigorous in the United States and in Great Britain and start to impose themselves in continental Europe. (*Banque*, 91, p.20)

In France, with the development of asset management as a new organisational field, a new market was made visible; it was constructed socially as a reality (Berger and Luckmann, 1967). Various elements came together to institutionalise the new patterns of organisation and behaviour. Clients started to express their demands more clearly and more specifically, not least because asset management companies had developed marketing and sales capacities. Autonomous subsidiaries would listen to their clients, because the new *entrepreneurial synthesis* was to best target clients' needs. And at the same time, some institutional agents could structure client relationship, by diffusing the Anglo-Saxon practices. Investment advisors, such as the Anglo-Saxon firms Frank Russell, Mercer, Watson Wyatt, and the French firms Fixage and Finance Arbitrage, could support the development of invitations to tenders. According to Mercer, there were 65 real invitation to tenders from institutional investors in 1996 and 118 in 1997 (*MTF-L'Agefi*, 94, March 1998).

Moreover, these advisors would teach institutional investors the selection methods and encourage asset management companies to produce specific information to enable them to be selected. They also contributed to the development of auditable standards. For instance, Frank Russell developed its own ranking (the Russell institutional asset management universe) to compare the performance of 24 firms. This complemented the growing number of palmares, rankings and performance studies, from companies like Europerformance or Micropal. And other institutional agents, the so-called rating agencies, such as Standard & Poor's, Fitch or the French firm AMR created in 1999, developed specific capacities dedicated to auditing, evaluating and comparing the performance of French asset management firms. Together these institutional agents contributed to the production and diffusion of analytical tools and more specifically performance and risk measurement instruments. As several interviewees explained to us, they were required to develop the capacities to produce specific information about their investment process and their performances. The following quote, from *J-F*, in charge of reporting in a major French competitor, illustrates the coercion process operated by these agents: if firms did not produce the information required they would not gain new contracts.

> *XX* is AIMR certified since March 1999. It was important to do the certification in order to respond to the transparency requirement of institutional clients, especially international ones, and some French ones too. We received two or three invitation to tenders last year saying 'if you are not AIMR certified, do not reply!'

The development of these new types of performance measurement ratios in turn reinforced the establishment of the new (Anglo-Saxon) practices; interaction had produced new routines.

As the professional review *Option Finance* underlined in September 1995, "the introduction of benchmarks has opened the way to the evolution of asset management techniques". The benchmark, associated with specific performance measurement ratios (like the Sharpe ratio or the information ratio) allowed external clients and their advisors judging more precisely how well the asset manager was doing in comparison with the stock market. These ratios and other types of information, such as the questionnaires used in invitation to tenders, or any other indicators required by rating agencies, can broadly be called calculation tools (Miller and O'Leary, 1991, 1993). They make it possible to compare asset managers on a single scale, to evaluate them and to compare their performance against a standard (e.g. stock market indices, the practices of leading competitors etc). They provide the apparatus for performance to be monitored, analysed and ultimately reported to external parties (Power, 1997: 114). Furthermore, in the French case, these calculation tools could be used by external auditors to establish whether French asset management companies were conforming to the legitimate patterns of behaviour, in short to the Anglo-Saxon model. Investment advisors and rating agencies could use such calculation tools to investigate the patterns of behaviour of the French firms and to make sure that they were in line with the institutionalised myths (Meyer, 1994; Meyer and Rowan, 1977), which in this case had become after 1996 those of the Anglo-Saxon business system.

In summary, the combination of calculation tools and institutional agents supported the production and re-production of the new routines taken from the Anglo-Saxon business system. On the one hand institutional agents pressed for auditable performance and they used the resulting calculation tools to compare the French patterns with the dominant institutionalised best practices, thus imposing new practices. On the other hand, calculation tools stimulated the production and re-production of new routines, which were opposed to those of the French model. In this process, we find support for the theories of Berger and Luckmann (1967) that reality is socially constructed as an objective reality through habitualisation and institutionalisation (70-80), and of Miller and O'Leary (1994), for whom new ways of organising require ideas, individuals and (accounting) practices to combine in a manufacturing space. And we also find support for Powell and DiMaggio (1983) and Meyer (1994), who recognise in rationalised environments the origins of formal organisations. Ultimately, this recursive process of structuration of the field resulted in some isomorphism in the French asset management industry: most firms adopted the Anglo-Saxon patterns of organisation and behaviour. The original interdependency of institutions and practices in the

Anglo-Saxon model was applied to the development of a French asset management sub-system. However, we observed in the previous chapter that the French model had not disappeared in the French economy, and that it survived in a section of the asset management field. The sustainability of the French asset management sub-system seems related to its integration within trans-national networks.

3.3. Conclusion: differentiation between trans-national actors and French niche players?

To conclude our analysis, we have to take account of the evidence presented in the last chapter, that a fraction of the French asset management industry continued to operate the patterns of the French model. We have explained that the adoption of practices deviant to the French business system was possible because of the constitution of a new organisational field, where new rules applied. We also showed that certain institutional actors and calculation tools had supported the constitution of the new field and that they had oriented adaptation processes towards the Anglo-Saxon model. By noticing that these actors, together with the French companies adopting the new practices, were actually engaged in a trans-national market, we can understand why it was possible to have some differentiation within the French asset management industry.

A series of actors played a determining role in the story we just told of the transformation of the French asset management industry. But we did not insist upon the importance of the fact that some of them were not operating only in France. The French firms that pioneered the adoption of the Anglo-Saxon model (Paribas, Indosuez, CCF, CDC, and AXA) are heavily involved in international markets. Even though they are French companies, their structures, their employees and their organisation are in many respect trans-national. For instance, in 1998 AXA Investment Managers developed a global matrix to manage its activities. Specifically, this meant that for each function in the value chain there is one global competency. The investment process is identical for all countries where the company has subsidiaries (France, UK, Belgium, Germany, Italy, Spain, Japan and Hong Kong), even though a subsidiary in one country may be in charge of a specific product. For instance, the Japanese subsidiary supervises all funds invested in Japan, whereas the French one supervises all funds invested in France and so on. Some other horizontal tasks, for example relations to consultants, are managed across borders. The same is true of Société Générale, which has shared resources with its British and Japanese subsidiaries, or of CCF, which uses the bottom-up analyses produced by Framlington throughout the company. Even CDC, which is still state-owned, developed in 1998 an integrated organisation with its subsidiaries in Germany, Luxembourg and the US (*L'Agefi*, March 17, 1998). In other words, these French companies which initiated the move towards the Anglo-Saxon model have developed some trans-national capacities. The same is true on the other side of the spectrum.

British and American pension funds began to operate in France in the early 1990s. As such, they were in effect trans-national actors, because their investment horizons looked beyond their national borders. But the same was true of investment advisors, rating agencies, management consultants, lawyers, the Big Five and so on. All the various law merchants that supported these trans-national investors were themselves trans-national players (Dezalay, 1995). And with the single European market and the introduction of the euro, even regulators have taken an increasingly international dimension. The European Central Bank is a true federal institution, and we should not forget that the MAF law, the turning point in the constitution of the new field, originated in the European Commission, with its Investment Services Directive. In other words, some of the key actors that played a role in the constitution of asset management as a sub-system within the French system were actually part of broader trans-national networks. This observation may well complement our analysis of the striking difference between the asset management industry and the rest of the French business system. We may even suggest the hypothesis, that the sustainability of the French asset management as a deviant sub-system could be achieved because trans-national networks or practices were supporting it. Beccali (2001) develops a similar hypothesis, with a different methodology, in a comparative study of investment firms in Italy and the UK. Seen in such a perspective, the French asset management industry would have been able to sustain deviant patterns of organisation and behaviour within the French business system because of its inscription in a trans-national system (Sklair, 1991).

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In conclusion, we have shown that there were different stages in the constitution of French asset management as a sub-system in which the Anglo-Saxon model was implemented. Far from contradicting the institutional perspective, our analysis actually complements it, by showing the mechanisms through which new practices and new institutions can emerge and establish themselves. The important lesson is the role of organisational field as dynamic components of business systems: new fields can be constituted in which agents and practices develop new routines, new institutions and new realities that eventually lead to isomorphic situations. Adaptation occurs continuously over time, but it does not develop smoothly. Admittedly, learning processes constantly produce and re-produce *organisational routines*. But those processes, which manipulate the environment and bring about change in the *entrepreneurial synthesis* or in the *conception of control,* require substantial power, and may not be completed without a field-wide adaptive upgrading. In other words, adaptation processes have to be related to the constitution of the organisational field in which firms operate. This leads us to conclude our analysis.

CHAPTER VIII: CONCLUSIONS

In reaching the end of our journey, we try to spell out briefly the possible contribution of our research. We started from a generic question: in an integrating Europe, how do firms adapt to changes in their surrounding business system? This led us to focus on one case study, which proceeded in four stages:

1. problematisation and methodology (chapter I)
2. design of the hypotheses (chapter II) and of the theoretical framework (chapter III)
3. empirical investigation (chapters IV and V)
4. analysis of the adaptation processes (chapter VI and VII)

It appears therefore that our analyses largely focused on the case study, French asset management over the 1984-1999 period. In this concluding chapter, we will attempt to go back to the original problem and to evaluate what we can learn from the case study. Also, we will try to broaden our angle and to look forward towards the research agenda that would stem from the research.

1. Summary of the findings

In the thesis, we mainly addressed one area of literature: the institutional analysis of European business systems, meaning by that the various authors who consider economic action to be embedded within a societal context and who are interested in understanding national specificities. This area of literature gives credit to the role of institutions in shaping how economic agents behave, relate and are organised. It includes various groups of researchers with slightly different research agendas. Closest to our research, because they tend to have some organisational focus and to use sociological theories, are probably the scholars working around Whitley in EGOS, or ESF like Kristensen, Djelic, Mueller, Lane, Quack and Morgan; as well as the heirs of the Aix school around Maurice, Sorge, O'Reilly, and Berthelot. But other studies looking at models of capitalism should be mentioned, even though they tend to have a more macro focus and to refer more to economic or political theories: Hall and Soskice, Casper, Berger, Dore, Hancké, Hollingsworth, Crouch and Boyer, Hage. Altogether, there is a large and growing body of literature positing that economic behaviour is best understood in reference to its context, and that regular and distinctive patterns can be observed in individual countries. We addressed this literature in reference to the problem of change, more precisely in reference to the persisting of national specificities in a context of ~~European integration,~~ and using organisational adaptation as a focus. And possibly we made two contributions to it: we provided some analytical tools to analyse the internal dynamics of business systems, and we suggested some shortcomings in the present understanding of these dynamics.

1.1. Methodology and analytical tools

In our attempt to analyse organisational adaptation in a given business system, we contributed to comparative methodology for the analysis of embedded economic action. We showed that dynamic processes are worth investigating, and that they can lead to a better understanding of international differences by revealing the internal links between national institutions and firms' behaviour. Moreover, our treatment of the case study led us to develop analytical tools, which proved helpful in portraying the typical patterns of firms and their transformation.

1.1.1. Institutions matter

The first conclusion we draw is that our initial approach was appropriate: we verified that institutions matter and that they constrain actors' behaviour. Simultaneously, we showed that the business system framework is both applicable and useful for any investigation of situated economic action.

Through the analysis of the French asset management industry, we confirmed the view sustained by the institutionalist approach that interdependencies exist between national institutions and firms' economic organisation (Whitley, 1999: 47). Using the variables identified in the business system framework, we were able to identify typical patterns of organisation and behaviour in France in the mid-1980s, and in Britain and the USA. We were then able to relate them to the broader institutional context, and to show their striking mutual differences as well as their respective internal consistency. In each of our three layers of analysis (*entrepreneurial synthesis, conception of control* and *organisational routines*) we found a coherent relation between asset management firms and their institutional setting. We were also able to establish that the resulting patterns were in line with previous studies conducted within the business system approach or societal school, regarding particularly the mode of financing, industrial relations and the labour market. In other words, our case study illustrated that distinctive forms of economic organisation are established in national institutional contexts, and in so doing it supported the business system concept and framework.

Admittedly, it is not so surprising that we were able to confirm the validity of an approach, which was our starting point: to some extent, this may be the natural result of our research design. But the importance of institutions was shown not only in the consistency of the models we formalised, but also in the concrete pressure felt by French firms as they faced a changing environment. We noticed in the thesis a time lag between the beginning of the changes and the adaptation by firms. More precisely, we saw that while solutions were advocated in the mid-1980s and that transformation was expected from then on, nothing happened until 1996. We showed that certain institutional conditions effectively prevented any radical change in the French model. Subsequently, we showed that before isomorphic behaviour could be established in the newly created asset management field other institutional mechanisms were needed, and in particular the political protection and policing of regulators, institutional agents and institutional tools. In other words, we not only showed the importance of institutions in terms of interdependency, but also as constraining and enabling factors. Consequently, we can say that by and large our findings confirmed the validity of the institutional approach, and the usefulness of the business system concept as an analytical tool for categorising economic action. We also complemented this framework, by insisting that dynamic processes are important and that they deserve further investigation.

1.1.2. Looking at dynamic processes is a valid methodological option

Our approach deliberately tried to avoid focusing on convergence or divergence between national economies. We wanted to escape from a methodological trap in which differences or similarities are exaggerated because of the format of the investigation. The solution we proposed in the thesis was to concentrate not on a static comparative picture, but to examine organisational adaptation as one key process within the dynamics of national business systems. And this methodology appeared a valid option.

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The business system approach provided us with a useful framework by which to categorise national economies in a comparative perspective. But because we paid attention to transformation as well, we were able to notice the inherent tensions within business systems. Our analysis showed that we should understand capitalist economies not as static and monolithic blocks but rather as constantly moving and dynamic entities, in which a number of processes, including organisational adaptation, occur. Our focus on adaptation illustrated that even when the patterns of the business system do not vary, it is because they are reproduced over time by the actors of the field, and not because they do not change. In other words, the fact that national economies exhibit persisting differences could be apprehended not as a static and unproblematic stage but rather as a dynamic and problematic state of self-reproduction. This methodological stance proved helpful in understanding how French firms changed their behaviour and organisation. In a longitudinal study, we found confirmation of what the societal school had argued in its comparative studies, that national specificities are revealed from the "construction" of "actors" and "spaces" (Maurice, 2000: 16). We then showed that this principle also illustrated how these same actors could lose their national specificities and construct new spaces, different from the dominant patterns of their business system. In other words, our methodological focus on dynamic processes has proved successful in the sense that it shone some interesting light on the mechanisms that can lead to stability and change among capitalist economies. But in the course of our investigation, we also developed some analytical tools.

1.1.3. Analytical tools

In this thesis, we spent some time developing analytical tools to understand organisational adaptation within the business system framework. These tools proved very useful in categorising the French model of asset management and its Anglo-Saxon counterpart, and in the subsequent analysis of the transformation of the French patterns in this industry.

One of our reservations concerning those approaches that focus on issues of convergence and divergence was that the methodologies used, by their very construction, drive analysis in the direction of supporting convergence or divergence. For that reason, we wanted to establish in our investigation some kind of grammar between clearly identified variables, in order to construct our objective reflexively. The methodological principle was one of a theory in practice, one where theoretical tools are specifically designed to help solve empirical problems. More precisely, our objective was to be able to monitor dynamic processes of adaptation and, at the same time, to fit this analysis within the general framework supplied by the business system perspective. This led us to build a framework, based on three analytical layers, that both comprehends all the activities of the firm and links its organisation to the surrounding environment.

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The resulting definition states that the firm can be defined along three layers (entrepreneurial synthesis, conception of control and organisational routines). The *entrepreneurial synthesis* is the reason for the firm to exist: it gives it its purpose and its value proposition as a response to the existing economic and societal environment; the entrepreneur forms a world-view about market inefficiencies and comes up with a synthesis in response. Once the entrepreneurial synthesis is formulated, a social space is open for individuals and practices to be organised in order to fulfil the goals set up by it. The *conception of control* is the institutionalised rationality about how best to organise work in the firm in response to the entrepreneurial synthesis; it is also the source of the dominant coalition's authority and the foundation on which it grounds its legitimacy in the firm. *Organisational routines*, finally, are the programmes and practices that have to be remembered by the members of the firm to enable them to perform their assigned tasks in the conception of control and in relation to the entrepreneurial synthesis; they also participate in the external environment.

We showed that such a framework is a useful tool with which to analyse the patterns of economic behaviour of firms in a given business system. Not only do the entrepreneurial synthesis, conception of control and organisational routines provide a way to categorise situated economic action, but they also relate internal elements to their institutional environment. This enabled us to characterise organisational adaptation along four processes: change in the entrepreneurial synthesis, change in the conception of control, learning of new routines and manipulation of the environment. The first three processes were the natural consequence of our layered definition of the firm; they relate to changes inside the firm in order to better fit its economic and societal environment. The last one corresponds to all attempts by the firm to alter its environment according to its own priorities. In the analysis of the French asset management industry, we illustrated how these processes operated, which lead us to relate adaptation and the constitution of the organisational field. However, we also contributed to the literature by showing some of its shortcomings.

1.2. Refining the analysis of embedded economic action

The thesis not only offered a methodological contribution; it also provided some insights into the analysis of embedded economic action, and in particular into the processes that reproduce and alter the patterns of business systems. Our case study did not focus on convergence or divergence; instead it showed that a more fruitful understanding of economic action can be obtained by taking into account the constitution and structuration of new organisational fields. Only by looking at this intermediate level is it possible to grasp the complex mechanisms that sustain the perpetuation of business systems.

1.2.1. Neither convergence nor divergence

The main result from our thesis is that it argues against convergence and divergence research agendas. The complexity of adaptation processes and the importance of the sectoral level make these focuses of analysis inappropriate. Even more, at the end of our journey, the concept of national business system has become problematic because it is not clear whether national spaces are consistent and stable or whether they become a mosaic of distinct organisational fields.

Our core empirical finding was that the French asset management industry at the launch of the euro looks very much like the Anglo-Saxon model. Admittedly there were some slight differences, but we argued that the similarities were very important indeed, and even sufficient for us to claim that French asset management firms had adopted the Anglo-Saxon model. This conclusion contradicted therefore the claim that business systems remain consistently distinctive in a context of economic change. More precisely, we did not establish any sort of convergence between *national* economies -we saw that France seems to retain most of its key features- but we argued that at the level of the organisational field, at the sectoral level, it was possible to find striking similarities across borders, between French and Anglo-Saxon firms. We therefore showed that within a national business system there could be some areas where firms behaved in a way notably different from the dominant patterns of the system. In other words, we discovered that in today's integrating Europe there is a lot more complexity and contrast in terms of economic action than might have been acknowledged by the national business system approach, the models of capitalism approach and the societal approach. Nothing prevents the emergence and development of new practices within a national economy. Provided these practices can find a new social space to occupy, as well as promoters and institutional support, especially from trans-national players, they can establish themselves firmly and eventually be routinised and institutionalised as a new sub-system. This claim was made by Mueller (1994), for instance. And it is something we can observe every day in our societies: China Town, the underground world, the Mafia and the jails are many examples of social spaces which not only function differently from the dominant culture but also function effectively.

Moreover, we showed that there is no mechanical interdependency between institutions and firms' practices, no straightforward relationship. We showed how deeply political were both the reproduction of the French model and the subsequent departure from the dominant patterns. If institutions are to have an impact on economic action, they have to be fought over and legitimated by powerful actors; they need to be part of the same social space and to be constitutive of its structure, rules and routines. In other words, we showed that the business system concept, even though it is a valid analytical tool, is not satisfactory as a theory. The concept of system has become problematic in our study, because at the end of our investigation it is not clear where the appropriate boundaries of the French business system are. We showed that it was not enough to consider any business system as a given and stable entity, and that it was necessary to explain why and how institutions influence economic behaviour. The matrices provided by Whitley (1990, 1995, 1999) may be valid analytical tools, but they show only correlations. They do not demonstrate how these correlations work and how they might be put to the test. Our case study showed is that it is necessary to look carefully at how organisational fields structure themselves and become rationalised.

In summary, our thesis has provided some problematic insights about the coherence of national business systems. Talking about convergence or divergence does not seem appropriate any more, because it implies the risk of misrepresenting national economies, and of categorising them in abstract models that miss the internal tension within national spaces. Instead, a more fruitful insight should be about how business system remain national or not.

1.2.2 Theorising change in the business system perspective

What makes the case study also interesting is that it resulted in some change, in some departure from the French model. Our investigation discovered a business that operated differently from the rest of the economy and one that had to break free from institutional interdependency. If we look back at the transformation of the French asset management industry, we can furthermore identify some of the elements that made change possible, and theorise change in the business system perspective. We adopted the perspective of Glaser and Strauss that empirical studies aimed at producing theories; it seemed natural to now attempt generalising from our case.

We showed that the transformation of the French asset management industry was not easy to obtain, and that it was not so much a convergence towards the Anglo-Saxon model as the internally generated constitution of a new organisational field. Even though challenges to the French model were mounting already in the 1980s, it was only after some special effort that the processes of adaptation could eventually apply to the whole industry in the direction of adopting new ways of organising. Until 1996, institutional interdependencies prevented ~~from~~ any departure from the French typical patterns of organisation and behaviour. We showed that firms could deviate from these institutional constraints when they found some shelter against French dominant institutions. The key element in our story was the constitution of asset management as a new organisational field. In 1996, it was recognised to be different from banking and insurance. Consequently, it was established in a virgin space and fitted with new rules and routines that could differ from the French patterns. Admittedly, the space was actually conquered against other sectors/professions. But we can formulate some theoretical intuitions about it: new practices can be implemented in new horizons and new frontiers because institutional constraints are lower there; change can be obtained by opening up new spaces. Such a proposition would very well apply to what used to be called the New Economy, where new business models have been invented outside existing frameworks.

At the same time, we showed that French asset management could have returned to the old model, without strong support of the COB and subsequent implementation by other institutional agents and calculation tools. A second theoretical intuition is therefore that new practices need being sheltered further and routinised in order not to be reversed by the pre-existing institutions. Shelter may come from trans-national networks, we identified in the French case. Such a proposition would well apply to Eastern European countries, and explain why free market principles and the rule of law are so unevenly spread.

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A second element that could lead to further theorising is the path followed towards change. We showed that it was no straightforward generalisation of a one-best-way. On the contrary, it was through a reflexive process emanating from French actors themselves. More precisely, it was stimulated by a group of individuals and subsequently endorsed by the State and by professionals. The result was a radical alteration of the patterns of organisation and behaviour. At the same time, we noticed that all firms had incrementally learned new routines. This leads to another theoretical proposition: radical change requires some mobilisation among groups of individuals, learning is possible without it. Finally, if we look at the path followed by French asset management firms towards change and the adoption of the Anglo-Saxon model, we have to recognise that it followed a very French trajectory: collusion between elites and the State. This leaves us with a final theoretical proposition: to be successful, change needs to follow a path that is in line with the existing structures of the business system.

To summarise, our case study suggests some theoretical propositions about change within the business system perspective. This corresponds to a list of conditions for change to be successfully implemented:

1. while incremental learning is relatively unproblematic, radical change is possible only as far as it is embedded in the constitution of a new organisational field
2. to be sustainable, radical change –as deviant behaviour- requires shelter from powerful institutions
3. radical change requires mobilisation from groups of individuals
4. to be successful, the path towards change needs adopting a trajectory that fits with the existing structures of the business system

interesting. [illegible]?

Admittedly, these theoretical propositions are simple and even almost tautological; but they seem intuitively valid, and are testable, which could lead to further research. They may therefore be used as the basis for subsequent investigations.

1.2.3. Organisational adaptation

Finally, our case study also demonstrated how organisational adaptation operates. Three elements are worth noticing: first the various degrees of adaptation, secondly the combination of cognitive and political elements, thirdly, the mechanics of elite replacement.

First of all, our study of the French asset management industry showed that adaptation goes at various speeds. Firms constantly learn new *organisational routines*; but under specific circumstances there may be more radical change, involving their *entrepreneurial synthesis* or *conception of control*. The degree of adaptation is not constant; it varies with the intensity of pressure towards change. More precisely, radical change is difficult to achieve, as we underlined in the 1984-1996 period, when identifying a series of mechanisms that effectively prevented firms from departing from the French model. Individual firms may develop their own deviant practices, but for these to be observed across a population of firms, there is a need for a structured and rationalised organisational field. We showed that adaptation was related to some co-evolution between firms and their surroundings. Their adaptation processes were not alien to the institutionalisation and structuration of new practices; on the contrary, they appeared to be driven by such developments. Adaptation goes therefore at various speeds and to grasp the degrees of adaptation, it is important to take into account not only individual firms but also the whole field in which they operate. Some processes are more radical than others. For instance, learning is a continuous process, while a change in the *conception of control* and even more a change in the *entrepreneurial synthesis* will be rare and will relate to some kind of crisis within the firm. But even in the case of learning, several degrees exist between single-loop and double-loop learning (Argyris and Schön, 1978).

Secondly, our analyses revealed that organisational adaptation operates along two dimensions that are not mutually independent: a cognitive and a political one. This was particularly apparent in our careful monitoring of the various processes that lead to the constitution of asset management as a new organisational field. We showed that actors problematised the changes in their environment and came up with solutions to adapt asset management firms; we also showed that these solutions were not immediately implemented but had to be battled through. Such findings are echoed in the organisational literature. The cognitive dimension is present in all adaptation processes, because it relates to the perception that actors make of their environment (Argyris, 1985; Weick, 1979). Learning, in particular, is almost purely a cognitive process. But even then, one should notice that political dimensions interfere. This is illustrated by the resistance to change that may be found in any attempt to foster organisational learning (Senge, 1995; Argyris, 1999). The political dimension is clear in the change of the *conception of control*, since it corresponds to the confrontation between rival propositions about how to best organise the firm. But it also exists for the *entrepreneurial synthesis*: business partners, such as shareholders, banks, suppliers or clients exert pressure that contributes to changing the *entrepreneurial synthesis* by influencing the goals it should aim at (Mintzberg, 1983). Cognitive and political dimensions interlock and display different degrees of strength; this is all part of the complexity of organisational adaptation. Adaptation does not proceed smoothly, nor in a linear way; it fluctuates considerably, between small incremental evolutions and large crises that reshape the firm radically. Changes in the environment have first to be perceived and understood by the members of the organisational field (Miller, 1991; Weick, 1979, 1995). This leads to the production of new business recipes (Whitley, 1992) and to the development of new routines (Argyris, 1999; Nelson and Winter, 1982). But it is not certain that these will be integrated immediately by the firm, without political struggle and without resistance. The complexity of the process requires therefore a particular treatment, and the use of a multi-layered definition of the firm is here again particularly useful, since it allows us to make distinctions between various families of influences.

The third element that we identified in the adaptation process relates to the links between the dominant coalition in the organisation and the *conception of control* in place. We showed that when a new conception of control was established in French asset management firms, hierarchy and control was substantially altered; the dominant position of the fund managers was replaced by the one of top managers seconded by controllers and sales people. Interestingly, this mechanism can be related to the model of elite replacement developed by Pfeffer and Salancik (1978), which is dissimilar only in so far as it gives dependency as the only mechanism of institutionalisation. Pfeffer and Salancik explain that the removal and selection of top administrators is affected by the organisation's context (1978: 228). New environmental conditions, in their view, impact on the distribution of power and control within the organisation, because those possessing key resources will have more power. New situations of dependence will lead to a new distribution of power that will lead in return to a selection of new executives. The perspective presented here follows and encompasses the resource-dependence model, by recognising that dependency is only one way to understand organisational legitimacy.[50] In fact, the *conception of control*, because it is a script about how to organise optimally, contains a specification of which resources are more necessary than others. Without a *conception of control* specifying which resources are more important, it is impossible to establish dependency. Dependency is only an expression of the *conception of control*. And the model of elite succession is applicable within the perspective adopted here: a new *conception of control* (which integrates a new hierarchy of resource-dependency) will lead to a new ruling coalition. Again, such a conclusion is relatively simple and almost tautological -given the definition of the *conception of control*- but it provides a theoretical proposition for the analysis of elite replacement.

2. Return to the general problem

We have now clarified the potential contribution of the thesis: a methodological contribution to the analysis of situated economic action and a contribution to the analysis of adaptation and change within the business system perspective. All these conclusions result from our case study, French asset management over the period 1984-1999, which we hoped would enable us to make some analytical generalisations. It is now time to try and go back to the generic problem that made us choose and design the case: how European business systems confront societal change. What lessons can we then draw from the case study? Is national distinctiveness disappearing? Is negative integration sufficient to lead towards an integrated European business system? What can we say about France and potentially about other European states?

2.1. Politics of globalisation

The case study was selected because it represented a sector that had been submitted to accelerated change and where national specificities were remarkable. We found that asset management firms, by and large, had adopted the Anglo-Saxon model and departed from the French model, apart from a minority of small companies. These findings, together with the path of adaptation processes leave us with two problematic insights about our general question, about how European business systems confront societal change. First, we have

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[50] The problem with the resource-dependence model is that it takes the detection of dependencies for granted, as if it was easy to know what the firm needs most. This evacuates the cognitive problem of identifying which resources are most necessary to the success of the firm.

found increased complexity and increased uncertainty towards the transformation of national capitalisms, in rebuttal to the convergence/divergence agenda. Secondly, we have identified a tension in the globalisation process that makes it eminently political and echoes recent events of unrest and disorder.

The story we just told did not follow a smooth path; French asset management did not change without fighting and resistance, without individuals mobilising and powerful institutions threatening. At one point, it seemed that national interdependency would prevent change. Soon after, the sector was escaping from the French model and integrating within trans-national spaces and practices. In front of societal change, and especially one that comes from outside, national business systems appear relatively unpredictable. It seems difficult to reconcile the story we told without mentioning historical contingencies, without recognising French peculiarities and specificities. Change in France was possible because of the particular fabric of French elite: once the State convinced, there were no remaining strong opponents, capable of resisting the move. We found individuals, coalitions, cognitive sense making and power games; we did not find a grand principle leading to convergence or divergence. We found rich contextual factors, triggering events and casual combinations, and not the easy adoption of universal best practices. This can be generalised when we think about globalisation. What the thesis tells us is that we should not take globalisation for granted, nor that it will proceed in a predictable way. Societal change and globalisation stimulate national business systems; they put pressure on firms and institutions and require adaptation to occur. But the outcome is not self-evident; it will result from the internally generated practices that actors develop in their local and situated environment. In rebuttal to all-encompassing theories, the thesis advocates caution about the potential outcome from globalisation and societal change: stimulation and change there may be, but whatever happens will be related to some peculiar context and contingencies.

The second element relates to the political nature of the transformation observed. We showed that change was not spontaneous and that it required the support of powerful institutions, which could shelter deviant behaviour and diminish resistance to the adoption of new patterns. In other words, the thesis is an indication that we should recognise the ideological nature of the globalisation agenda. Globalisation is not irresistible; national institutions will not change unless actors make them change. Governments should not pretend that it is beyond their control and that changes linked to the opening of national systems will self-impose on their constituencies. Recent events of protests and demonstration at various international meetings are one illustration that globalisation is a political question, not a process that will naturally take over national specificities. For globalisation to take place, it needs specific institutions to be installed in the national fabric, it needs structuration of the organisational field. All this requires important political entrepreneurship and contest as examples from developing countries or from Eastern Europe illustrate. Whether national distinctiveness disappears or not is therefore a political question: from our research we can say that sectors can display similar patterns across borders, provided the actors of the field want it. Globalisation is not a spontaneous and irresistible process: it is stimulated by trans-national actors but embraced by national and local agents. When politicians blame globalisation, we ought to acknowledge that they are actually blaming their own acceptance of it.

2.2. Trans-national spaces and European integration

In the introduction to the thesis, we explained that our research question was interesting also because it explored whether negative integration – measures increasing market integration by eliminating national restraints on trade and distortions of competition- was sufficient to foster some unified European business system. However, looking back at our case study, we can say that the key development that led to change in the French asset management industry was rather the production of new laws and new institutions, hence positive integration. For that reason, the thesis indicates that building a unified European business system requires more than negative integration, it requires building cross-border spaces of common practices, as can also be illustrated from European multinationals.

Our story about French asset management industry clearly showed a two-stage transformation process: before 1996 and despite de-regulation, increased competition and internationalisation, firms continued to reproduce the French model. After the constitution of asset management as a separate organisational field, distinct from banking and insurance, it was possible for new practices to be implemented and for adaptation processes to take place. The thesis showed that these new patterns were inscribed in common European regulation (European investment services directive) as well as in the production of new rules and professional codes of conduct (La Martinière report). It also showed that some regulatory bodies (the COB in particular, but also Paris commercial court) had to enforce the new rules of the game. In other words, even though stimulation towards change was generated from outside agents, like foreign competitors and clients, as a consequence of 'negative integration', the actual move towards new (trans-national) practices was the product of some 'positive integration' mechanisms, and notably law making and political enforcement. This seems to indicate that negative integration will on its own not be sufficient to promote a

European business system. For this to happen, it would be necessary to build and sustain new institutional arrangements. And it is not obvious that multinational companies on their own would have the means to develop and sustain some integrated European business system.

Here we may briefly refer to a survey conducted in January 1999 among 45 corporate partners of the Community of European Management Schools. This survey, which looked at human resource management issues and obtained a 69% return rate, was later complemented by a workshop involving 42 people from business and academia, held in Copenhagen in December 1999. Two major conclusions emerged from the study. First it showed that Europe was not isolated from the rest of the world in terms of management practices; there was no such thing as a European business system that stopped at the borders of the EU and contained distinctive patterns (Kleiner, 1999b). Then it showed some convincingly similar practices between the companies in terms of international human resource management (Kleiner and Durand, 2000). This confirmed other findings that British and German manufacturing industries had started to display the same best practices (Kirchmaier and Owen, 2000). Even though more evidence is needed, there are therefore increasing signs that multinationals are using the same practices across borders (Morgan, 2001), and that these are not confined either to the national or the European Union level. We may therefore anticipate that not only in asset management but also in other industries, multinational companies will adopt the same (trans-national) kind of practices, those which best suit their sectoral requirements. However, from what we saw in the French case, we may also expect that the path towards adopting this trans-national practices will be neither smooth nor unproblematic. On the contrary, it is likely to be very contingent upon national and sectoral conditions.

2.3. National business systems: differentiation and contagion

Lastly, we may try to use our case study to draw more general conclusions about national business systems. We focused on just one sector of the French economy. What can we learn about France as a whole? What does it tell us about other countries? Two elements are worth mentioning: first the issue of differentiation within nation-states, and secondly, the potential contagion of larger parts of the business system.

In the French case, we saw that it was possible for one sector to operate in ways radically different from the dominant national patterns. The French asset management industry actually became differentiated, between on the one hand smaller players reproducing the French model and on the other those that had embraced the Anglo-Saxon model. We were not able to

can we then truly speak of national business systems?

explore in full how these two segments related to each other, but we had some insights, to the effect that each had its internal consistency and that they did not target the same types of clients. This differentiation within one national economy, between firms, which still adhere to national patterns and others, who have adopted foreign and/or trans-national patterns, leads to another hypothesis about persisting national distinctiveness. We could foresee a differentiated world, in which boundaries are not in the first place national, but rather horizontal. Different layers would be observed across countries, and each layer would relate to a series of identified social stratifications. One layer would be made up of trans-national practices, institutions and actors such as the European Union, the International Monetary Fund (IMF), and global professional firms and companies; these would largely ignore the national dimension because their field would be constituted across national borders. Another layer would be made up of the various local levels, regions, sectors, towns and communities, which would have built their own logic, their own rules and behaviours, sheltered from national influence. The remaining layer would be made up of the remaining parts of the national business system, linked to the last elements of national sovereignty. Here we would expect the core institutions to nurture the few sectors, industries and practices that best fit national specificities (Best, 1990: 145; Mueller, 1994). National distinctiveness would therefore survive, but in a limited arena, one in which national interdependency was strongest and was reflexively regarded as the best alternative, in the face of trans-national and local competition. In other words, the national level would not be the natural level of analysis, but only one among others, and in opposition to others. Of course such levels would not operate independently from one another; they would however display distinct logics, rules and structures. The recent projects about a possible constitution of the European Union, on the basis of delimitation of powers between the European, national and regional levels, would represent the platform of such a expand model. However, differentiation within nation-states, as observed in the French case, entails the risk of losing sufficient basis for legitimacy, as is already the case at the level of the European Union. This leads to a subsequent problem: how to govern a national space that has become differentiated? How to build political legitimacy over citizens you do not in effect rule? We had underlined that European integration was not an automatic process resulting from deregulation; we now see that it also includes problems of governance and constituency.

The second conclusion we may reach from our study regarding national business systems regards the impact of the transformation of one sector on the whole business system. Now in France, there is a full-functioning asset management industry, similar to what happens in Anglo-Saxon countries. It means that investment is managed according to specific rules, using calculation tools and reporting, applying codes of conduct and performance measurement standards. Admittedly, these rules are specific to the asset management business; but these firms also have relations with many customers, clients and with listed companies. This leads us to suggest~~ing~~ that just like asset management was structured as a new organisational field, after confrontation with practices from England and America, this business could itself then trigger up subsequent contagion in the French business system. An area where the contagion of the French business system to the Anglo-Saxon model is already recognised regards corporate governance. It seems that in the very recent period, France has converted to an outsider model of corporate governance, similar to the Anglo-Saxon one, but that French firms' innovation strategy is still affected by previous specialisations in the 'dirigist' years of the late 1970s, early 1980s (Goyer, forthcoming). In other words, the contagion from asset management to other areas of the business system appears possible but once again is not a straightforward process. As we described for asset management, the same cognitive and political processes are to be expected in the adaptation of firms and the outcome can not be taken for granted. France will certainly not become a copycat of America of Britain; it is however taking up some key features of their business system, and contagion from the financial sector is already having an impact. Large French firms, such as Vivendi-Universal, have already embraced the Anglo-Saxon model. But the French state is also proving capable of re-defining and perpetuating its role with less direct intervention and more structural regulation, as illustrated in recent development in labour law (35-hour-week, employee consultation), corporate governance (transparency and control regarding stock options) or anti-trust (state aid to Crédit Lyonnais, international expansion of EDF, prevention of Coca-Cola/Orangina merger). By comparison, such developments are unlikely to happen in Germany. Given the importance of intermediary levels, such as the trade unions, works councils, Länder, trade associations etc., it is not surprising that Germany seems so far to be blocked in its attempted reforms. Our analyses showed that any change required substantial efforts and political opposition to establish new rules of the game. With multiple level negotiation, it is necessarily more difficult to impose some radical move. There are indications that capital market pressures are having some impact (Vitols, 2000). But our thesis would expect it to be more difficult for Germany to change radically, because of its decentralised institutions.

3. A research agenda

At the end of this thesis, we can see two areas where subsequent research would be needed to continue and complement the small initial step conducted in this project.

First, it appears necessary to use a similar method to gather more evidence about organisational adaptation and to test the conclusions of this thesis. A first step would be to look at the asset management industry in other European countries, in particular Germany, Luxembourg and Italy, which are also large markets. It would be interesting to establish whether the Anglo-Saxon model has also been adopted there, and if so then how this happened. The hypothesis to be tested would be whether a new organisational field has been constituted and how. After looking at the asset management industry in other countries, the research agenda should include similar investigations, but in other sectors, the objective every time being to pay attention to the various elements that contribute to the structuration of social spaces. Interesting topics could be the Eastern European countries, where it would be important to find out how the principles governing the market economy were implemented, and the resulting impact on patterns of organisation and behaviour. Another interesting area might be the analysis of new public management programmes, and the attempts at reform within the public sector. Applicability of your framework to these areas?

In parallel with this investigative agenda, the thesis suggests a broad theoretical agenda. It would concern the various elements and processes that constitute organisational fields. We identified institutional agents and calculation tools as important elements. But more generally, what makes a social space? What are the conditions under which actors and practices can constitute institutional arrangements? A research agenda could use the material above to test whether the constitution and structuration of social spaces is the foundation of the development and stability of society. This could fuel a theory of what might be called institutional ecology, which would examine how new institutional arrangements are produced and re-produced by agents over time and how they fade away. rather ambitious

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Les Echos

Les Echos-Patrimoine

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MTF-L'Agefi

Option Finance

The Banker

The Economist

Interviews

Asset Management professionals

Name and title	Organisation	Date, time and duration	Place
Géraud Brac de la Perrière Chief Executive	AGF Asset Management	27 September 1999, 12:00; duration 45 min	37 rue St Marc Paris
Peter Byjate Global Human Resource Manager	AXA Investment Managers	16 January 2001, 16:00; duration 1h10	7 Newgate Street London
Charles-Etienne de Cidrac Global head of consultants relationships	AXA Investment Managers Paris	7 May 1999, 12:30; duration 1h30	Café avenue de la Grande Armée Paris
Jean-François Darricaud Head of controlling	AXA Investment Managers Paris	31 May 1999, 11:00; duration 50 min	46 avenue de la Grande Armée Paris
Kevin Dolan Chief Executive	AXA Investment Managers Paris	31 May 1999, 9:00; duration 50 min	46 avenue de la Grande Armée Paris
Robert Marjolin Head of Marketing	BNP Gestion	8 June 1999, 15:00; duration 1h 10	Collines de l'Arche La défense
Alain Dromer Chief Executive	CCF Asset Management Group	31 August 1999, 18h00; duration 1h10	121, avenue des Champs Elysées Paris
Mathieu Negre Fund manager	CCF Asset Management Group	14 May 2000, 17:15; duration 1h15	Interview and recording kindly provided by Olivier Godechot
Jacques Le Reboullet	CDC AME	16 June 1999, 9:00; duration 1h	5 rue des martyrs du lycée buffon Paris
Marc. Boulanger Former head of controlling	CDC AME	14 June 1999, 12:30; duration 1h30	10 rue Heine Luxembourg
Henri Ghosn Fund manager	CDC Participations	3 May 16h30 ; duration 1h	Tour Montparnasse Paris
M. Papiasse Chief Executive	CLAM	10 June 1999, 17 :30 ; duration 45 min	168, rue de Rivoli Paris
Marc Sinsheimer Strategic development	CLAM	14 May 1999, 12:00; duration 1h40	168, rue de Rivoli then restaurant rue J-J Rousseau Paris
Gilbert Habermann Chief Executive	Crédit Lyonnais Banque Privée	28 June 1999, 16:00; duration 50 min	Tour Arianne La Défense
Nick Turdean Globbal director, projet Euro	CSFB	21 January 1999, 10:00; 1h05	1 Cabbot Square London
Laurence Benard Head of accounting	Cyril Gestion	1st December 2000, 11:30; duration 1h10	2 rue des Italiens Paris
David Haysey Chief Investment Officer	Deutsche Bank Asset Management	27 January 1999, 14h, duration: 40 min.	20 Finsbury Circus, London

Michel Haski Chief Executive	Dresdner RCM Gestion France	17 May 1999, 10:00; duration 50 min	108 Boulevard Haussmann, Paris
Marc-Henri Martin Marketing and Sales director	Financière Atlas	6 May 1999 17h30 ; duration 1h35	4 place Vendôme Paris
David Marsh Head of Research	Flemings	11 December 1998, 10:00; duration: 1h	25 Cofthall Avenue, London
Stéphane Girardot Marketing manager	Fleming Asset Management France	8 June 1999, 9:00; duration 50 min.	39:41 rue Cambon Paris
Philippe Delaby Head of the asset management division	GAN	30 June 1999, 11:00; duration: 25 min.	on the phone
Christophe Beauvilain Vice-President Asset Management	Goldman Sachs	17 November 1999, 12:30; duration 1h30	Bank restaurant Aldwych London
Paul Guidone Chief Executive	HSBC Asset Management	4 February 1999, 10:00; duration 45 min.	6 Bevis marks, London
Pierre-Henri de la Porte du Theil Director	Indocam	28 May 1999, 11:00; duration: 1h05	90 Boulevard Pasteur Paris
Thierry Coste Chief Executive	Indocam	2 June 1999, 17:30; duration 1h10	90 Boulevard Pasteur Paris
Joseph Assémat-Tessandier Partner	Lazard Frères Gestion	14 September 1999, 15:00; duration 45 min	10 avenue Percier Paris
Yves Bazin De Jessey Fund manager	Lazard Frères Gestion	2 September 1999, 16:00; 1h	10 avenue Percier Paris
Mitchel Shivers Managing Director of EMU Project	Merril Lynch	12 January 1999, 11:00; duration 40 min.	25 Ropemaker Place London
Richard Bronk	Merril Lynch	11 December 1998, 18:00; duration 55 min	Café Amici Aldwych London
Jean-Philippe Taslé d'Heliand Chief Executive	ODDO Asset Management	1st December 2000, 14:45; duration 45 min.	14 Bld de la Madeleine Paris
Alain Leclair Vice-President (also president of AFG-Asffi)	Paribas Asset Management	2 July 1999 ; 16h30- duration 50 min	31 rue de Miromesnil Paris
Jean-Luc Bordeyne Human Resource Manager	Paribas Asset Management	3 June, 15 :00 ; duration 1h	3 rue d'Antin Paris
Alain Ernewein Head of relationships with professional associations	SGAM	26 May 1999, 10:00; duration 1h	Tour Elf La Défense
Jean-François Piofret Head of Human Resources	SGAM	26 May 1999, 17:00; duration 1h15	Tour Elf La Défense
Jean-François. Hirschel, SGAM	SGAM	25 June 1999, 9:00; duration 1h	Tour Elf La Défense
Bernard Camblain Chief Executive	Sogip Banque	31 March 1999, 11:00; duration 1h20; 11 June 1999, 10:00; duration 1h	5 avenue Percier Paris
Didier Bouvignies, Chief investment officer	Victoire AM	29 June 1999, 15:30; duration 1h15	28 rue Pépinière Paris

Professional associations and public authorities

Name and title	Organisation	Date, time and duration	Place
Eric Pagniez International matters	AFG-Asffi	12 May, 11:00; duration 1h	31 rue de Miromesnil Paris
Pierre Bollon General Secretary	AFG-Asffi	30 May 1999, 10 :00 duration 1h05	31 rue de Miromesnil Paris
M. Chesneau General Secretary	AGIRC	22 September 1999, 16:00; duration 1h05	4 rue Leroux Paris
Pierre de Massy Head of Social Matters	Association Française des Banques	26 April 1999, 15 :00 ; duration 1h15	18 rue Lafayette Paris
Alison Michell Advisor	Association of Unit trusts and Investment Funds	11 February 1999, 10h30; duration 1h15	65 Kingsway London
Pierre-Henri Cassou General Secretary	Banque de France	4 May 1999, 18:00; duration: 1h20	2 rue de Radzivill Paris
Arnaud Jean Unionist, delegate for the banking sector	CFDT	27 May 1999, 14:30; duration 30 min.	on the phone
François Delooz Director, Savings and Investment	Commission des Opérations de Bourse	1st December 2000, 16h30; duration 1h35	17 place de la Bourse Paris
Hervé Carré Director, DG Economic and Monetary Affairs	European Commission	6 January 1999, 11h; duration 45 min.	Avenue de Beaulieu Bruxelles
Gianluigi Campogrande, head of unit C-1, DG Internal Market	European Commission	6 January 1999, 17:00, duration: 35 min.	Av de Cortenberg n°107. Bruxelles
José Fombellida-Prieto Head of unit investment products, DG Internal Market	European Commission	6 January 1999, 16:00, duration : 1h 35	Av de Cortenberg n°107. Bruxelles

Consultants, finance professionals

Name and title	Organisation	Date, time and duration	Place
Thierry Saintot Consultant	AMR	3 September 1999; 16:00; duration 1h15	17 rue Banque Paris
Jérôme Thoenig Consultant	Artech	21 April 1999, 17:00; duration 1h 30; 31 May 1999, 15:00; duration 1h	21 avenue Victor Hugo Paris
Gérard de La Martinière Global General Director	AXA Group	3 June 1999, 16:00; duration 50 min.	23 avenue Matignon Paris
Jean-Jacques Bonnaud Advisor to the CEO (former chief executive of GAN)	Caisse des Dépôts et Consignations	1 June 1999, 9h30; duration 2 h	282 Boulevard Saint Germain Paris
Jean de Flassieu former CEO	Crédit Lyonnais	13 April 1999, 17:00; duration 1h20	27 rue de Choiseul Paris

Jean-Claude Betbèze Head of strategy	Crédit Lyonnais	12 May 1999, 7:30; duration 1h	81 rue de Richelieu Paris
Jean-Yves Rossignol Strategy analyst	Crédit Lyonnais	18 May 1999, 17:30; duration 1h	81 rue de Richelieu Paris
Martin Cooper Manager, division financial services	Deloitte & Touche Management Consulting	23 February 1999, 10:00; duration 40 min.	1 Stonecutter Court, London
Daniel Tournier	Egon Zehnder	27 April 1999, 15:00 ; duration 50 min	12 av Georges V Paris
Gonzague Poirier-Coutansais Chief Executive	Eurosearch Consultants	21 April 1999, 9:30; duration 1h40	103 rue La Boétie Paris
Laurent Roussel Financial analyst	Exane	4 May 1999; 15:00; duration 55 min	16 avenue Matignon Paris
Antoine Briant Chief Executive	Finance Arbitrage	23 June 1999, 18:30 ; duration 1h15	19 rue Vivienne Paris
Michel Piermay Chief Executive	Fixage	10 June 1999, 10:00; duration 1h	10 av Myron-T-Herrick Paris
Dominique Dorlipo Consultant	Frank Russell Company	24 August 1999, 10:30; duration 1h	6 rue Christophe Colomb Paris
Michel Louvet Analyst, mutual funds	IBCA Fitch	30 August 1999; 16:00; duration 25 min	(on the phone)
Mr. Schultze, Consultant	KPMG Luxembourg	5 January 1999, 10 :00 ; duration 1h05	31 Allée Scheffer Luxembourg
Isabelle Gourmelon et Laure Pautel Editors, asset management supplements	L'Agefi	10 May 1999, 12:00; duration 1h40	Gallopin, rue Notre Dame des Victoires Paris
David Newton, Partner, in charge of financial services	PriceWaterhouse Coopers	29 January 1999, 15:00; duration 1h20	Southwark Tower n°32 London
Jacques Felousa Head-hunter, financial services	Progress	30 June 1999, 14:45; duration 30 min.	(on the phone)
Olivier Godechot Human Resource	Société Générale	23 August 2000, 14:30; 1h20	Jardins de l'Ecole des Mines, Bld St Germain Paris
Dominique Potiron Head-hunter, financial services	Spencer Stuart	29 May 1999, 10:30; duration 25 min.	(on the phone)
Robert Deville Chief Executive	Watson Wyatt Paris	9 June 1999, 17:30; duration 50 min	26 rue pépinière Paris